

## 115 WAYS TO EARN MONEY WITH YOUR COMPUTER

1. Provide computer-based office management services for attorneys
2. Do word processing
3. Do medical billing for doctors
4. Do automated telemarketing
5. Manage a church
6. Start a computer user's group
7. Learn to win at blackjack
8. Bet on horse races
9. Bet on pro football
10. Sell computers from your home
11. Provide medical information management
12. Broker information
13. Trade stock by computer
14. Provide astrological services
15. Offer an interactive electronic newsletter
16. Produce book indexes
17. Provide a computer assisted booking service
18. Make stock market investment decisions
19. Do genealogical research
20. Manage a band
21. Manage a house or pet sitting service
22. Track precious gems
23. Sell information to Doctors
24. Analyze real estate investments
25. Support a small law practice
26. Write a book
27. Market collectables
28. Do psychological counseling
29. Prepare income tax returns

30. Provide economic consulting
31. Solve real estate financing problems
32. Do data base reasearch
33. Publish your own book
34. Design your own small business system
35. Crop management
36. Analyze farm expenses
37. Provide weekly printout of bowling league statistics
38. Make computer-generated portraits
39. Manage investment shelters
40. Manage construction costs
41. Produce computer utility products
42. Provide computer-aided financial planning
43. Sell life insurance
44. Support a small publishing business
45. Provide weekly printout of little league baseball statistics
46. Run a small pharmacy
47. Become a computer dealer
48. Interpret physical therapy test results
49. Manage a restaurant
50. Start your own yellow pages
51. Conduct computer assisted telephone interviewing
52. Stream-line executive activities
53. Provide commodities planning
54. Turn financial statements into financial pictures
55. Manage a museum collection
56. Support consumer education programs
57. Do freelance technical writing
58. Do multi-level direct mail marketing
59. Review specialty software

60. Become an engineering consultant
61. Provide sports information services
62. Produce products for hobbyists
63. Provide specialty-focused software services
64. Run a Multi-level, direct sales operation
65. Do litigation management
66. Manage a dairy farm
67. Provided automated debt collection
68. Provide date-base installation and instruction
69. Run a beauty school/beauty salon
70. Improve small business services
71. Broker used computers!
72. Telecommute
73. Enhance medical diagnosis and treatments
74. Create electronic marketing tools
75. Do independent software documentation
76. Teach people how to use micro computers
77. Become your own computer book publisher
78. Create computer-generated puzzles and word games
79. Become a software consultant
80. Produce low cost computer graphics products
81. Develop software for children
82. Perform real estate inspections
83. Do software translations
84. Produce a computer controlled home security system
85. Automate conference registration
86. Create computer gifts
87. Enhance scientific products
88. Write software for use in the home
89. Manage a winery
90. Desisn and produce personal computer hardware or peripherals

91. Design publish and distribute software
92. Provide information vending machines
93. Start a software writing, cooperative
94. Develop smart scale real estate partnerships
95. Do property management
96. Do mortgage loan brokerage
97. Perform nonjudicial foreclosures
98. Develop mini-warehouse storage facilities
99. Sell instant signs
100. Start an advertising agency
101. Start a resume service
102. Manage a talent agency
103. Operate a referral service
104. Operating a mailing list service
105. Operate a typesetting service
106. Offer a legal forms service for the general public
107. Publish your own newsletter or help others for a fee
108. Operate a voice mail service
109. Start your own local classified newspaper
110. Provide a collection letter service
111. Offer a custom diet plan service
112. Start your own local real estate newspaper
113. Start an apartment rental newspaper
114. Provide a payroll service
115. Start a singles dating service

Desktop Publisher

Vital Information

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Start-up Investment

Low - \$700.00 (If computer and printer is financed). Home-based operation.

High - \$4,000 - \$10,000 Buy equipment and set up office.  
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Break - even time - 90 days to 6 months  
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Estimate of Annual Revenue and Profit

Revenue \$20,000 - \$250,000

Profit (Pre-tax) \$16,000 - \$110,00  
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An Exploding Market

According to recent estimates by business consulting firms this market has grown from roughly 3 million in annual sales in 1985 to almost 3 billion in 1991, and there is no end in sight. One of the real opportunities and challenges of this business is the fact that there are still millions of clients out there that as yet do not even know that they need the services of a desktop publishing service.

Desktop publishers use computers, laser printers and sophisticated software program in the preparation of high quality graphic material. The price of the equipment used is continuing to come down dramatically, therefore the start-up estimates may be high. The quality of graphic material which can be produced in this manner is so high that only a professional can detect the difference between material designed by desktop publishing and material which has been typeset. The latter has a somewhat higher resolution which is not noticeable to the naked eye. Much of the material you see in newspapers such as USA Today and magazines was prepared through desktop publishing.

Desktop publishers prepare graphic materials such as: brochures, flyers, full page advertisements, newsletters, books, proposals, forms and much more. Some desktop publishers will also perform word processing services for their clients. While some desktop publishers will prepare almost any kind of graphic material, many will specialize in one or more, such as newsletters.

While prior computer knowledge is a plus anyone who has a desire to learn the operation of a computer can acquire the ability to become a desktop publisher.

Quality laser printers which a few years ago sold for \$4,000 to \$7,000 can now be bought for under \$1,000. The laser printer is the key element in making desktop publishing possible. The laser in the printer is activated to "paint" a picture of the computer file which was created through desktop publishing software. As such it acts as a photocopier, by scanning back and forth at high speeds while the drum containing the toner rotates back and forth. The toner is similar to that used in photocopiers. It is attracted to, or repelled from the imaged or 'un-imaged' areas of the drum. As it passes the rotating drum it is transferred onto a piece of paper. This is called "camera-ready" material. It is taken to a printer to be reproduced.

To truly understand the continuing magnitude of this field, it is important to realize that until the invention of the laser printer, graphic material was either produced by graphic designers or typesetters in printing businesses. Since graphic designers were, and still are quite expensive their services were generally only available to the medium-sized and larger companies. The typesetter, on the other hand, who rarely had artistic ability prepared art-work for those who could afford the graphic designer. This material generally looked second class. Desktop publishing for the first time has made it possible for any size company to present itself with graphic material which looks every bit as good as the material that huge corporation use to sell their products and services.

#### Who Are The Customers And How To Find Them

Almost any size company and organization is a potential customer. Many of the large companies have down-sized their P.R. and Advertising Departments during this recession. And medium-sized and small companies rarely have the equipment or personnel to perform this very specialized work in-house.

Potential customers are, for example: restaurants which require menu design, a painter who needs flyer to pass out, a legal firm which requires hundreds of different forms, a hotel which needs brochures, a writer who needs a cover design for his book, and we could add hundreds of other situations to this list.

You should join one or more Chambers of Commerce in your community and surrounding communities and other organizations which allow you to meet potential

customers.

Advertising is both daily newspapers -business section, or in the classified section under "business Services" will be very worthwhile. As soon as feasible an ad in the Yellow

Pages will give your business additional visibility. Advertising in other business related publications in your community will also be beneficial. Direct mail directed to businesses and organizations will also be highly beneficial in most businesses, once you have found your first few customers, especially the "first big one" it will be easier to find other clients. Word of mouth of a satisfied client will go a long way and it will be your most effective advertising.

The quality and eye-appeal of your brochure and other sales material will be of vital importance. After all you are a desktop publisher and therefore your brochure should very professional looking. Clients will also want to see some work ("your portfolio") which you have prepared for clients.

One of the best leads for new business will be the never ending flow of junk mail which you will receive from both local and out-of-town companies. Much of this material will not be very professional in appearance. You can gently and diplomatically suggest to a potential client how much more effective their sales campaign will be with professional looking material.. Since many potential graphic material is too expensive for their budget they will be pleasantly surprised when they learn from you that it can be prepared for \$15 to \$30 per page.

#### Operating Your Business

Most anyone without prior computer background, unless they are young enough to have had computer instructions in high school, will be initiated by computers. Yet slowly but surely computers are becoming as much a part of our lives as automobiles. And if you consider how little most people know about the operation of the automobile engine, but how well they can drive you will realize how easy it is to learn the operation of a computer. While books, operating manuals and even classroom instructions will be most helpful, the most effective way to learn is through practice. Basic knowledge of most software programs, including desktop publishing software can be acquired in about 20 hours. To become truly proficient will take about 2-3 months.

This business lends itself well to be operated from your home. Since you will be receiving

clients it is important that your home-office be presentable and well kept. As your business grows you can move to larger quarters in an office.

Your initial expenses in addition to the equipment itself will pertain to basic office supplies, the preparation and reproduction of your sales material, advertising, postage and miscellaneous expenses. If at all possible get a second telephone line just for your office so you can insure it will always be answered professionally. An answering machine or telephone answering service will communicate with your clients in your absence.

Owners of new businesses will spend the majority of their time, during the start-up phase on finding new business. Your new clients will be looking for quality graphic material which is prepared in a relatively short time span (generally from 2 to several days depending on the project - larger projects may take substantially more time), at a reasonable price. The cost of your services are determined by what your competition charges which is pretty well determined by general cost of living expenses in your community.

It will be a good idea if you do some snooping around and visit some of your competitors as a "potential client". You will find their advertisements in local business publications and the Yellow Pages.

Since you are selling a service most of your revenue will go to the bottom - line and will become profit to you. Operating expenses will be relatively small for general office supplies, paper, laser printer toner, etc. Of course, you may have to finance the purchase of your equipment over a period of time. If your credit is good, financing will be relatively easy to obtain through most computer stores. Since new computer equipment is becoming outdated at an ever increasing speed it is best to buy equipment on the lower end of the price range even if your budget can stand the higher outlay of capital.

Small businesses and organizations will be requesting credit extension. Your care in granting this privilege is important. Nothing is more aggregating than selling a service "your time" and not get paid. It is not at all unreasonable to request payment up front with new and small business clients. Once you have granted credit to a business or organizations set down strict rules and stick to them. In general there rarely is justification to carry any client beyond 60 days.



As you expand and require assistance to carry the work-load consider hiring "outside contractors" instead of employees. There are many individuals who have the knowledge and equipment to free-lance with desktop publishing. You will be saving the various benefits which are required to pay to employees and which average about 20 - 30% of salary.

#### Resources

Publications: Publish, P.C. World, Mac World are the best known publication. New ones are coming on the market on an on going basis.

#### Organizations:

Most of the major desktop publishing software programs sponsor user clubs/organizations throughout the country, such as Ventura Publishing.

#### Education:

Almost all colleges and university have an extensive curriculum in various computer instructions including desktop publishing. There are also various private instructions available thorough seminars, etc., however, these tend to be quite expensive.

For additional information helpful in setting up your new business, information about licenses, permits, the legal structure of your business, taxes, insurance and much more refer to the

Business Start-Up Fact Finder Manual

#### THE SURVIVAL TIPS FOR SMALL BUSINESSES

You may be in Mail Order, Direct Mail, or you may be a local merchant with 150 employees; whichever, however or whatever---you've got to know how to keep your business alive during economic recessions. Anytime the cash flow in a business, large or small, starts to tighten up, the money management of that business has to be run as a "tight ship."

Some of the things you can and should do include protecting yourself from expenditures made on sudden impulse. We've all bought merchandise or services we really didn't need simply because we were in the mood, or perhaps in response to the flamboyancy of the advertising or the persuasiveness of the salesperson. Then we sort of "wake up" a couple of days later and find that we've committed hundreds of dollars of business funds for an item or service that's not essential to the success of our own business, when really pressing items had been waiting for those dollars.

If you are incorporated, you can eliminate these "impulse purchases" by including in your by-laws a clause that states: "All purchasing decisions over (a certain amount) are contingent upon approval by the board of directors." This will force you to consider any "impulse purchases" of considerable cost, and may even be a reminder in the case of smaller purchases.

If your business is a partnership, you can state, when faced with a buying decision, that all purchases are contingent upon the approval of a third party. In reality, the third party can be your partner, one of your department heads, or even one of your suppliers.

If your business is a sole proprietorship, you don't have much to worry about really, because as an individual you have three days to think about your purchase, and then to nullify that purchase if you think you don't really need it or can't afford it.

While you may think you cannot afford it, be sure that you don't "short-change" yourself on professional services. This would apply especially during a time of emergency. Anytime you commit yourself and move ahead without completely investigating all the angles, and preparing yourself for all the contingencies that may arise, you're skating on thin ice. Regardless of the costs involved, it always pays off in the long run to seek out the advice of experienced professionals before embarking on a plan that could ruin you.

As an example, an experienced business consultant can fill you in on the 1244 stock advantages. Getting eligibility for the 1244 stock category is a very simple process, but one with tremendous benefits to your business.

The 1244 stock encourages investors to put equity capital into your business because in the event of a loss, amounts up to the entire sum of the investment can be written off in the current year. Without the "1244" classification, any losses would have to be spread over several years, and this, of course, would greatly lessen the attractiveness of your company's stock. Any business owner who has not filed the 1244 corporation has in effect cut himself off from 90 percent of his prospective investors.

Particularly when sales are down, you must be "hard-nosed" with people trying to sell you luxuries for your business. When business is booming, you undoubtedly will allow sales people to show you new models of equipment or a new line of supplies; but when your business is down, skip the entertaining frills and concentrate on the basics. Great care must be taken however, to maintain courtesy and allow these sellers to consider you a friend and call back at another time.

Your company's books should reflect your way of thinking, and whoever maintains them should generate information according to your policies. Thus, you should hire an outside accountant or accounting firm to figure your return on your investment, as well as the turnover on your accounts receivable and inventory. Such an audit or survey should focus in depth on any or every item within the financial statement that merits special attention. In this way, you'll probably uncover any potential financial problems before they become readily apparent, and certainly

before they could get out of hand.

Many small companies set up advisory boards of outside professional people. These are sometimes known as power Circles, and once in place, the business always benefits, especially in times of short operating capital. Such an advisory board or power circle should include an attorney, a certified public accountant, civic club leaders, owners or managers of businesses similar to yours, and retired executives. Setting up such an advisory board of directors is really quite easy, because most people you ask will be honored to serve.

Once your board is set up, you should meet once a month and present material for review. Each meeting should be a discussion of your business problems and an input from your advisors relative to possible solutions. These members of your board of advisors should offer you advice as well as alternatives, and provide you with objectivity. No formal decisions need to be made either at your board meeting, or as a result of them, but you should be able to gain a great deal from the suggestions you hear.

You will find that most of your customers have the money to pay at least some of what they owe you immediately. To keep them current, and the number of accounts receivable in your files to a minimum, you should call them on the phone and ask for some kind of explanation why they're falling behind. If you develop such a habit as part of your operating procedure, you'll find your invoices will magically be drawn to the front of their piles of bills to pay. While maintaining a courteous attitude, don't hesitate, or too much of a "nice guy" when it comes to collecting money.

Something else that's a very good business practice, but which few business owners do is to methodically build a credit rating with their local banks. Particularly when you have a good cash flow, you should borrow \$100 to \$1,000 from your banks every 90 days or so. Simply borrow the money, and place it in an interest bearing account, and then pay it all back at least a month or so before it's due. By doing this, you will increase the borrowing power of your signature, and strengthen your ability to obtain needed financing on short notice. This is a kind of business leverage that will be of great value to you if or whenever your cash position becomes less favorable.

By all means, join your industry's local and national trade associations. Most of these organizations have a wealth of information available on everything from details on your competitors to average industry sales figures, new products, services, and trends.

If you are given a membership certificate or wall plaque, you should display these conspicuously on your office wall. Customers like to see such "seals of approval" and feel additional confidence in your business when they see them.

Still another thing often overlooked: If at all possible, you should have your spouse work in the business with you for at least three or four weeks per year. The important thing is that if for any reason you are not available to run the business, your spouse will be familiar with certain people and situations about

your business. These people should include your attorney, accountant, any consultants or advisors, creditors and your major suppliers. The long-term advantages of having your spouse work four weeks per year in your business with you will greatly outweigh the short-term inconvenience. Many couples share responsibility and time entirely, which is in most cases even more desirable.

Whenever you can, and as often as you need it, take advantage of whatever free business counseling is available. The Small Business Administration published many excellent booklets, checklist and brochures on quite a large variety of businesses. these publications are available through the U.S. Government printing office. Most local universities, and many private organizations hold seminars at minimal cost, and often without charge. You should also take advantage of the services offered by your bank and local library.

The important thing about running a small business is to know the direction in which you're heading; to know on a day-to-day basis your progress in that very direction; to be aware of what your competitors are doing and to practice good money management at all times. All this will prepare you to recognize potential problems before they arise.

In order to survive with a small business, regardless of the economic climate, it is essential to surround yourself with smart people, and practice sound business management at all times.

#### THE LAZY PERSON SECRETS TO OVER NIGHT WEALTH AND FAME

There are so many simple, yet really sure-fire ways of acquiring wealth, it's a wonder everybody with even the least bit of ambition isn't already rich. When you come right down to it, the only things needed for anyone to make bundles of money are the long-range vision and the energy to put a money-making plan into force.

One of the easiest methods of building wealth, and the one most often used by the "smart" people, is to furnish the expertise, equipment or growth capital to promising beginning business. Basically, you buy in as either a part owner or limited partner; then, as the business grows and prosper with your help, you reap your share of rewards.

The beautiful part about this whole concept is that you can repeat this procedure over and over again. You can start out with, say marketing and sales leadership for small, garage-type business; then with your holdings and earnings from that business, invest in another, and keep doing this until you own a part of twenty-five to an unlimited number of businesses. Looking at the idea from a dollar return point of view, if you were getting \$200 per month from 25 different business, your monthly income would amount to no less than \$5,000 and that's not too bad for a fledgling millionaire.

Look around your own area. With just a little bit of business

sense and perception, you're sure to find hundreds of small businesses that could do better--perhaps even become giants--with your help.

Most small businesses need, and would welcome marketing, promotional, advertising, and sales help. If a quick survey of business turns you on with enthusiasm about the potential profits to be made with just a few changes that you can suggest, then you are on your way.

Basically, you set up an appointment to see and talk with business owners about some ideas and help that could double or triple their profits. When you approach them in that manner, their almost certain to want to see you and hear what you have to say.

In preparation for your meeting, set your ideas down on paper. Put them together in an impressive marketing or profit potential folio. Outline your ideas, the costs involved and the ultimate profit to be gained.

Then, when you arrive for the meeting, be sure to look and act the part of a successful business person. A few pleasantries to break the ice, and begin with your presentation.

Through your proposal, you must instill confidence that you can do all you claim for him. Guide him through the presentation to the ultimate profits---- all for a 10 or 20 percent limited partnership in the business, which really won't cost him anything. Of course, if he is reluctant to give up any part of his ownership, you come back with the idea of being hired as a consultant.

Almost all small businesses need help of some kind. The owners get bogged down in a myriad of every day problems and things to do. They find there just are not enough hours in the day to handle everything that should be taken care of, and end up neglecting or putting off some of the things they should be doing to keep the business prosperous. As a result, the long struggle for business survival begins, with more than 60% of them selling out at a loss or just closing up shop.

The other way to "cut yourself in" on a piece of someone else's business is to supply needed money. If you can come up with 10 or 15 thousand dollars, you can easily "buy into" some small businesses. Be sure to look the business (and its market potential) over; but once you spot one that can really be a winner with just a little bit of operating cash or money for expansion, then start figuring!

You can reach a never ending supply of such businesses to choose from, simply by running a small advertisement in your daily newspaper in the .Classified section under the heading of Business Opportunities Wanted. Such an ad might read:

SUCCESSFUL BUSINESS EXECUTIVE LOOKING FOR NEW  
BUSINESS VENTURES. WILL CONSIDER BUY OUT OR  
PARTNERSHIP. PO BOX 123, CITY, STATE, ZONE

By the same token, make it a habit to look through the Business Opportunities Available on a regular basis. Mark a few each day

and follow up. Check them out, And see what kind of a deal is being offered. Remember, proper management and planning are basically the ingredients to success in business; and most small businesses just do not have these ingredients in the proportions needed to attain their greatest profit potential.

Other people have done it, and more are starting up every day. There's no reason why you can't do it. In most cases little or no cash is needed. But with a little bit of action on your part, you could quickly become a multi-business owner, and very wealthy as well.

#### PREPARE A BUSINESS PLAN THAT GUARANTEES BIG PROFITS

Success in business comes as a result of planning. You have to have a detailed, written plan that shows what the ultimate goal is, the reason for the goal, and each milestone that must be passed in order to reach your goal.

A business plan is written definition of, and operational plan for achieving your goal. You need a complete but success tool in order to define your basic product, income objectives and specific operating procedures. YOU HAVE TO HAVE A BUSINESS PLAN to attract investors, obtain financing and hold onto the confidence of your creditors, particularly in times of cash flow shortages--in this instance, the amount of money you have on hand compared with the expenses that must be met.

Aside from an overall directional policy for the production, sales effort and profit goals of your product--your basic "travel guide" to business success--the most important purpose your business plan will serve, will be the basis or foundation of any financial proposals you submit. Many entrepreneurs are under the mistaken impression that a business plan is the same as a financial proposal, or that a financial proposal constitutes a business plan. This is just a misunderstanding of the uses of these two separate and different business success aids.

The business plan is a long range "map" to guide your business to the goal you've set for it. The plan details the what, why, where, how and when, of your business--the success planning of your company.

Your financial proposal is a request for money based upon your business plan--your business history and objectives.

Understand the differences. They are closely related, but they are not interchangeable.

Writing and putting together a "winning" business plan takes study, research and time, so don't try to do it all in just one or two days.

The easiest way to start with a loose leaf notebook, plenty of paper, pencils, pencil sharpener, and several erasers. Once you get your mind "in gear" and begin thinking about your business plan, "10,000 thoughts and ideas per minute" will begin racing through your mind...So, it's a good idea when you aren't actually working on your business plan, to carry a pocket notebook and jot

down those business ideas as they come to you--ideas for sales promotion, recruiting distributors, and any other thoughts on how to operate and/or build your business.

Later, when you're actually working on your business plan, you can take out this "idea notebook" evaluate your ideas, rework them, refine them, and integrate them into the overall "big picture" of your business plan.

The best business plans for even the smallest businesses run 25 to 30 pages or more, so you'll need to "title" each page and arrange the different aspects of your business plan into "chapters." The format should pretty much run as follows:

- Title Page
- Statement of Purpose
- Table of Contents
- Business Description
- Market Analysis
- Competition
- Business Location
- Management
- Current Financial Records
- Explanation of Plans For Growth
- Projected Profit & Loss/Operating Figures
- Explanation of Financing for Growth
- Documentation
- Summary of Business & Outlook for The Future
- Listing of Business & personal References

This is a logical organization of the information every business plan should cover. I'll explain each of these chapters titles in greater detail, but first, let me elaborate upon the reasons for proper organization of your business plan.

Having a set of "questions to answer" about your business forces you to take an objective and critical look at your ideas. Putting it all down on paper allows you to change, erase and refine everything to function in the manner of a smoothly oiled machine. You'll be able to spot weakness and strengthen them before they develop into major problems. Overall, you'll be developing an operating manual for your business--a valuable tool which will keep your business on track, and guide you in the profitable management of your business.

Because it's your idea, and your business, it's very important that YOU do the planning. This is YOUR business plan, so YOU develop it, and put it all down on paper just the way YOU want it to read. Seek out the advice of other people; talk with, listen to, and observe, other people running similar businesses; enlist the advice of your accountant and attorney--but at the bottom line, don't ever forget it has to be YOUR BUSINESS PLAN!

Remember too, that statistics show the greatest causes of business failure to be poor management and lack of planning--without a plan by which to operate, no one can manage; and without a direction in which to aim its efforts, no business can attain any real success.

On the very first page, which is the title page, put down the name of your business-ABC ACTION--with your business address

underneath. Now, skip a couple of lines, and write it all in capital letters: PRINCIPAL OWNER--followed by your name if you're the principal owner. On your finished report, you would want to center this information on the page, with the words "principal owner" off-set to the left about five spaces.

Examples: ABC ACTION  
          1234 SW 5th Ave.  
          Anywhere, USA 00000

PRINCIPAL OWNER: Your Name

That's all you'll have on this page except the page number  
-1-

Following your title page is the page for your statement purpose. This should be a simple statement of your primary business function, such as: We are a service business engaged in the business of selling business success manuals and other information by mail.

The title of the page should be in all capital letters across the top of the page, centered on your final draft--skip a few lines and write the statement of purpose. This should be direct, clear and short--never more than (2) sentences in length.

Then you should skip a few lines, and from the left hand margin of the paper, write out a sub-heading in all capital letters, such as: EXPLANATION OF PURPOSE.

From, and within this sub-heading you can briefly explain your statement of purpose, such as: Our surveys have found most entrepreneurs to be "sadly" lacking in basic information that will enable them to achieve success. This market is estimated at more than a 100 million persons, with at least half of these people actively "searching" for sources that provide the kind of information they want, and need.

With our business, advertising and publishing experience, it is our goal to capture at least half of this market of information seekers, with our publication. MONEY MAKING MAGIC! Our market research indicates we can achieve this goal and realize a profit of \$1,000,000 per year within the next 5 years...

The above example is generally the way you should write your "explanation of purpose," and in subtle definition, why you need an explanation. Point to remember: Keep it short. Very few business purpose explanations justify more than a half page long.

Next comes your table of contents page. Don't really worry about this until you've got the entire plan completed and ready for final typing. It's a good idea though, to list the subject (chapter titles) as I have, and then check off each one as you complete that part of your plan.

By having a list of the points you want to cover, you'll also be able to skip around and work on each phase of your business plan as an idea or the interest in organizing that particular phase, stimulates you. In other words, you won't have to make



your thinking or your planning conform to the chronological order of the "chapters" of your business plan--another reason for the loose leaf notebook.

In describing your business, it's best to begin where your statement purpose leaves off. Describe your product, the production process, who has responsibility for what, and most importantly, what makes your product or service unique--what gives it an edge in your market. You can briefly summarize your business beginnings, present position and potential for future success, as well.

Next, describe the buyers you're trying to reach--why they need and want or will buy your product--and the results of any tests or surveys you may have conducted. Once you've defined your market, go on to explain how you intend to reach that market--how you'll these prospects to your product or service and induce them to buy. You might want to break this chapter down into sections such as..publicity and promotions, advertising plans, direct sales force, and dealer/distributor programs. Each section would then be an outline of your plans and policies.

Moving into the next chapter on competition, identify who your competitors are--their weakness and strong points--explain how you intend to capitalize on those weaknesses and match or better the strong points. Talk to as many of your "indirect" competitors as possible--those operating in different cities and states.

One of the easiest ways of gathering a lot of useful information about your competitors is by developing a series of survey questions and sending these questionnaires out to each of them. Later on, you might want to compile the answers to these questionnaires into some form of directory or report on this type of business.

It's also advisable to contact the trade associations and publications serving your proposed type of business. For information on trade associations and specific trade publications, visit your public library, and after explaining what you want ask for the librarian's help.

The chapter on management should be an elaboration on the people operating the business. Those people that actually run the business, their job, titles, duties, responsibilities and background resume's. It's important that you "paint" a strong picture of your top management people because the people coming to work for you or investing in your business, will be "investing in these people" as much as your product ideas. Individual tenacity, mature judgment under fire, and innovative problem-solving have "won over" more people than all the AAA Credit Ratings and astronomical sales figures put together.

People becoming involved with any new venture want to know that the person in charge--the guy running the business knows what he's doing, will not lose his cool when problems arise, and has what it takes to make money for all of them> After showing the "muscle" of this person, go on to outline the other key positions within your business; who the persons are you've selected to handle those jobs and the sources as well as availability of any help you might need.

If you've been in business of any kind scale, the next chapter is a picture of your financial status--a review of your operating costs and income from the business to date. Generally, this is a listing of your profit & loss statements for the six months, plus copies of your business income tax records for each of the previous three years the business has been an entity.

The chapter on the explanation of your plans for the future growth of your business is just that--an explanation of how you plan to keep your business growing--a detailed guide of what you're going to do, and how you're going to increase your profits. These plans should show your goals for the coming year, two years, and three years. By breaking your objectives down into annual milestones, your plan will be accepted as more realistic and be more understandable as a part of your ultimate success.

Following this explanation, you'll need to itemize the projected cost and income figures of your three year plan. I'll take a lot of research, an undoubtedly a good deal of erasing, but it's very important that you list these figures based upon thorough investigation. You may have to adjust some of your plans downward, but once you've got these two chapters on paper, your whole business plan will fall into line and begin to make sense. You'll have a precise "map" of where you're headed, how much it's going to cost, when you can expect to start making money, and how much.

Now that you know where you're going, how much it's going to cost and how long it's going to be before you begin to recoup your investment, you're ready to talk about how and where you're going to get the money to finance your journey. Unless you're independently wealthy, you'll want to use this chapter to list the possibilities and alternatives.

Make a list of friends you can approach, and perhaps induce to put up some money as silent partners. Make a list of those people you might be able to sell as stockholders in your company--in many cases you can sell up to \$300,000 worth of stock on a "private issue" basis without filing papers with the Securities and Exchange Commission. Check with a corporate or tax attorney in your area for more details. Make a list of relatives and friends that might help you with an outright loan to furnish money for the development of your business.

Then search out and make a list of venture capital organizations. Visit the Small Business Administration office in your area--pick up the loan application papers they have--read them, study them, and even fill them out on a preliminary basis--and finally, check the costs, determine which business publications would be best to advertise in, if you were to advertise for a partner or investor, and write an ad you'd want to use if you did decide to advertise for monetary help.

With listing of all the options available to your needs, all that's left is the arranging of these options in the order you would want to use them when the time come to ask for money. When you're researching these money sources, you'll save time by noting the "contact" deal with when you want money, and whenever possible, by developing a working relationship with these people.

If your documentation section, you should have a credit report

on yourself. Use the Yellow Pages or check at the credit department in your bank for the nearest credit reporting office. When you get your credit report, look it over and take whatever steps are necessary to eliminate any negative comments. Once these have been taken care of, ask for a revised copy of your report and include a copy of that in your business plan.

If you own any patents or copyrights, include copies of these. Any licenses to use someone else's patent or copyright should also be included. If you own the distribution, wholesale or exclusive sales rights to a product, include copies of this documentation. You should also include copies of any leases, special agreements or other legal papers that might be pertinent to your business.

In conclusion, write out a brief, overall summary of your business-- when the business was started, the purpose of the business, what makes your business different, how you're going to gain a profitable share of the market, and your expected success during the coming 5 years..

The last page of your business plan is a "courtesy page" listing the names, addresses and phone numbers of personal and business references--persons who have known you closely for the past five years or longer--and companies or firms you've had business or credit dealings with during the past five years.

And, that's it--your complete business plan. Before you send it out for formal typing, read it over once a day for a week or ten days. Take care of any changes or corrections, and then have it reviewed by an attorney and then, an accountant. It would also be a good idea to have it reviewed by a business consultant serving the business community to which your business will be related. After these reviews, and any last-minute changes you want to make, I'll be ready for formal typing.

Hire a professional typist to type the entire plan on ordinary white bond paper. Make sure you proof-read it against the original. Check for any corrections and typographical errors--then one more time--read it through for clarity and the perfection you want of it.

Now you're ready to have it printed and published for whatever use you have planned for it--distribution amongst your partners or stockholders as the business plan for putting together a winning financial proposal, or as a business operating manual.

Take it to a quality printer in your area, and have three copies printed. Don't settle for photo-copying..Have it printed!

Photo-copying leaves a slight film on the paper, and will detract from the overall professionalism of your business plan, when presented to someone you're trying to impress. So, after going to all this work to put together properly, go all the way and have it duplicated properly.

Next, stop by a stationery store, variety store or even a dime store, and pick up an ordinary, inexpensive bind-in theme cover for each copy of your business plan. Have the holes punched in the pages of your business report to fit these binders and then slip each copy into a binder of its own.

Now, you can relax, take a break and feel good about yourself..You have a complete and detailed business plan with which to operate a successful business of your own. A plan you can use as a basis for any financing proposal you may want to submit..And a precise road-map for the attainment of real success.

Congratulations, and my best wishes for the complete fulfillment of all your dreams of success!!!

#### BARTERING, AN ALTERNATIVE TO SPENDING MONEY

Bartering is not negotiating! Bartering is "trading" for a service, or for the goods you want. In essence, bartering is simply buying or paying for goods or services using something other than money (coins or government printer paper dollars).

Thus defined, bartering has been around much longer than money as we know it today. Recent estimates indicate that at least 60 percent of companies on the New York Stock Exchange use the principles of bartering as a standard business practice. Congressmen barter daily to gain support for their pet projects. U.S. aircraft manufacturers barter with foreign airlines in order to close sales on million dollar contracts. Perhaps you have experienced at one time or another in your life a friend saying, "Okay, that's one you owe me..." Basically, that's bartering.

The reason bartering enjoys renewed popularity in times of tight money is simply that it is the "bottom-line" method of survival with little or no cash. In times of high interest rates, cash in anyone's pocket is indeed a very precious commodity, and bartering is even more popular. Bartering affords both the individual and the established business a way to hold onto cash while continuing to get needed goods and services.

In addition to saving a business borrowing costs, bartering can improve its cash flow and liquidity. For anyone trying to operate a successful business, this is vitally important, and for individual families in these times, it makes possible the saving of cash funds for those purchases where cash is necessary.

To start and successfully operate a bartering club, YOU MUST THINK IN TERMS OF A BANKER. After all, that's precisely the reason for your business - to receive and keep track of people's deposits while lending and bringing together other people wanting or needing these deposits.

So your first task is to round up depositors. As a one-man

operation, you can start from your home with nothing more than your telephone and kitchen table, but until you get helpers you'll either be very small or very busy (probably both).

You can run a small display ad in your local newspaper. A good ad would include the following ideas:

#### NEW BARTERING CLUB!

Trade your expertise and/or time for the merchandise or services you need. We have the traders ready - merchandise, specialized skills, buyers too! Call now and register.  
ABC BARTERING (123) 456-7890

When respondents to this ad call, you handle them just as a banker handles someone opening a new account. You explain how your club works: Everyone pays a membership fee of \$100 to \$300, and annual dues of \$50 to \$100. The depositor tells you what he wants to deposit, perhaps \$150 worth of printing services, and what he's looking for in return - storage space for his boat over a three month period. If you have a depositor with garage space for rent and needing printing services, you have a transaction.

But let's say you have no "perfect match" for this depositor. On your list of depositors you have a dentist who's offering \$500 worth of dental work for someone to paint his house. A woman with a garage to rent in exchange for dental work for her children. An unemployed painter willing to paint houses in exchange for a side of beef, and a butcher who wants to trade a side of beef for advertising circulars.

Remember, when a new member joins your club, he makes a deposit and states his wants or needs. In the above example, you have a typical bartering club situation. Your service is to spend or line up those deposits to match the wants or needs of the club members.

An affinity for people and a good memory are vital to this kind of business, especially if you're running a "one-man show". Generally, when you have a buyer for one of your depositors, you notify him or her right away with a phone call. You simply tell her that Club Member A wants to rent your garage. She tell you fine, but she doesn't want any printing services. You simply tell her to hang on because you are currently in the process of contacting the dentist who will do the work on her kids' teeth. And so it goes in the operation of a bartering club.

Some of the larger bartering clubs (with several thousand members), simply list the

deposits and wants or needs on a computer, and then invite their members to come in and check out the availability for themselves. Others maintain merchandise stores where the members come in to first look at the computer listing, and then to shop, using credit against their deposits. The smaller clubs usually publish a weekly "traders wanted" sheet and let it go at that.

These methods all work, but we've found that instead of leaving your members to fend for themselves or make their own trades, the most profitable system is to hire commission sales people to solicit (recruit if you will) new members, specifically with deposits to match the wants and needs of your present members. These sales people should get 20% of the membership fee from each new member they sign, plus 3 to 5 percent of the total value of each trade they arrange and close. This percentage, of course, to be paid in club credits, spendable on merchandise or services offered by the club.

You'll need a club charter, a board of directors or officers, and in many areas, a city or county license. Check with your city or county clerk for more information on these requirements. You should also have a membership contract, the original for your files and a duplicate for the member. In most cases you can write your own, using any organization membership contract as a guide, or you can have your attorney draw one up for you. You'll also need a membership booklet, or at least an addenda sheet to your contract, explaining the rules and bylaws of your club. It's also suggested that you supply your members with consecutively numbered "club membership identification cards" for their wallets or purses. Some clubs even give membership certificates suitable for framing. You can pick these up at any large stationery house or commercial print shop.

Two things are important to the make up of the membership package you exchange for membership fees:

1. It must be as impressive as you can make it
2. It must be legal, while serving your needs almost exclusively.

Basically, you should have at least 100 members before you begin concentrating on arranging trades. As stated earlier in this report, the easiest way to recruit new members is to run an ad in your newspapers, and perhaps even on your local radio stations as well.

Follow up on these inquiries with a direct mail package, which would typically consist of a

brochure explaining the beauty and benefits of being a member of your bartering club, a sales letter, and a return reply order form. After you've sent out the direct mail piece, be sure to follow up by phone, and if necessary, make a call in person as any other sales person would do.

Another way of recruiting new members is via the Amway Introduction Party Program. Allow a certain number of club credits for each party a club member arranges for you. Insist on at least 10 couples for each party, and then as the "Attraction of the Evening," you or one of your salespeople give a motivation-benefits available recruiting talk. Be sure you get the names, addresses and phone numbers of everyone attending, and be sure that everyone leaves with your literature.

If all those in attendance at these parties do not join, the follow up on them, first by phone and then with personal sales presentations. Once you've got them interested in your club, do not let go or give up on them until you have signed them as members. Another thing - take a page from the Party Plan Merchandiser's Handbook, and look for those who would be most likely to want to promote a similar party for you. Offer them an item of merchandise they might be particularly interested in, and club credits if they'll not only join, but also stage a party for you.

A bit more expensive, but just as certain of success are free seminars. Rent a large meeting room, advertise in your local papers, and then put on a hard-sell recruiting show. Such a plan is very similar to the party plan idea, but on a larger scale. An inside tip: Whenever you stage a recruiting party or seminar, always "pad the audience" with your own people, who will of course lead the way for those you're trying to recruit.

As stated earlier, you can start operations out of your home, but working out of your home has a number of growth inhibiting factors. After a certain period of time, the growth of almost any kind of business is retarded when it's operated out of a home. So just as soon as you possibly can afford to, move into an office of some sort. Keep your eyes open and consider the feasibility of sharing an office with an insurance agent or real estate broker. Check your newspaper classifieds for businesses willing to share office space or to rent desk space or other office amenities.

This is the kind of business that demands an image of success. You just can't keep people from "dropping in" when you're operating strictly on a local basis. And when you attempt to hire sales people, a place of business to work out of is just as

important to them as how much commission they're going to receive. Image is super important, so don't neglect it!

Ideally, you should have one salesman for every 50,000 people in your area. Run an ad in your local newspaper, and also list your needs with your state's employment service. Hire ONLY commission salespeople. Give them a percentage of the membership fee for each new member they sign, plus a small commission on each trade deal they close.

Assign each of your people specific territories, and insist that they call on potential commercial accounts ranging from the "hole in the wall" rubber stamp shop to magazine publishers and commuter airlines. There's plenty of business available in every city or metro area in the country. Encourage your sales people to be creative and imaginative when calling on prospects. Then, be sure that you keep an open mind and listen to their wild trading proposals (some "wild" proposals have been known to become "wildly" successful)!

Schedule "open discussion" sales meetings every morning before your sales people "hit the bricks". Have each of them report on their selling efforts from the day before, and present to you a written list of prospects they plan to call on today. Set up sales motivation workshops to be held at least once a month, and at least once a week schedule a motivational speaker or play one of the widely available success/inspirational tapes as a closing feature of your morning sales meetings. Stock sales success books and encourage your people to borrow them, take them home and read them. Your sales people will make you rich, but only if you turn them on and keep them flying high with personal motivation.

Should you or should you not accept installment payments from new members? Yes, by all means! But only when you've got their signature on a contract drawn up for your benefit and deemed legally binding by your attorney. What about bank cards? Yes indeed! In fact, you'll find that your capability of handling bank cards will double or even triple your sales.

Precisely how much are you going to need in actual start-up costs? We should estimate a least \$500 for your printing and legal fees, unless you can trade charter memberships in your club for these services. Timewise, you're going to be putting in 18-hour days, and 7-day weeks, until you get those first 100 people signed up. And there won't be any money for salary of long-deserved vacations from these first 100 members you sign. You'll need it all for advertising, membership packets and office set-up. However, if you can really work at it, you should be home



free in six weeks or less. Then you can set up your office, hire a couple of girls to handle the paperwork, and take on a salesperson or two.

Reputation and success in matching offers to wants will be just as important as image, so give it your all. Don't give up; stand behind the implied, as well as the real promises you make to your members.

A couple of final notes: Should you offer a guarantee of satisfaction? Only so long as it makes money for you, and you can back it up. There's not a person in business anywhere who enjoys refunding a customer's money. But don't forget that the existence of your business depends on service. The more you project an image of a "people pleaser," the greater success you're going to achieve. This is definitely not a business for someone who doesn't enjoy "waiting on" people. You've got like people, enjoy helping them, and want the inner satisfaction that comes from selling new ideas.

This is definitely a growth business. Bartering Clubs in metropolitan population areas of 300,000 or more are reporting incomes of over a million dollars. The average in cities of 100,000 population is about \$150,000 per year.

Actually, no experience or special training is required. The operation of a Bartering Club is equally suited to women or men. Both do equally well as salespeople. It's a business that fills a need, and a kind of membership program people will stand in line to be a part of, once they've been introduced to the benefits.

This is the plan. It's going to take your time and effort to get organized, but after your initial work to establish this business, you can become quite wealthy in a relatively short time. Read over this plan again; determine if this is "the one" for you, and then go all out. It's up to you, and all it takes now is action on your part.

One of the best of all the available sources of ongoing help and knowledge about bartering is a quarterly publication entitled Bartering News. Write and ask for a sample copy. The address is:

Bartering News  
P.O. Box 3024  
Mission Viejo, CA 92690

A BOOKKEEPING SYSTEM THAT WILL SAVE YOU MONEY

One of the most important, least understood and appreciated aspects of any business, is its bookkeeping or accounting system. And, because very few people know much about the reasons for a bookkeeping system, most people are frightened by the thought of the work involved in setting up such a system, and the drudgery of daily maintenance.

There's really nothing complicated to bookkeeping - it's as simple as keeping a daily diary and/or maintaining your personal checkbook. At the bottom line, it's simple a matter of recording your deposits - your incoming monies - and keeping a record of the money you spend.

So, the first thing you need to do is open a business account for your extra-income business or endeavors. Generally, this is simply a matter of asking the new accounts teller at a local bank for a business account registration card. Fill this card in, and with the small registration fee, send it in to the appropriate commissioner, and from there, open your new business account - complete with imprinted checks.

Drop by a local stationery store and pick up a loose leaf notebook, and a supply of paper. We've always picked up a supply of index tabs at the same time - either to separate the months or the accountability sections for each item we sell.

Assuming that you want to make it as simple as possible, while at the same time keeping it as efficient as is necessary - here's what you do and how you do it.

On the first page in your notebook, write on the top line and in the middle of the page:

Monday, January 1st, 1994 or whatever day you officially start your business. Then, as your orders come in - if by mail, as you open your mail - jot down starting from the left side of page, the amount you received - dash - for what - from whom, and their address. The page might look like this:

Monday - January 1st, 1994

\$3 - Tax-Saving Report - Jim Sloan, 97301  
\$6 - Tax-Saving & Dating Report - Steve Nelson, 30261  
\$3 - 5-Letters P/Day Report - Gloria Watson, 63222  
\$10 - Easy Money - Bob Elliott, 42134  
\$10 - How To Sell Books by Mail - Dave Sasseen, 11301  
TOTAL INCOME: \$3...EXPENSES: None

That's all there is to it, and emphatically, all it is to recording what you receive and what you spend.

The next entry, immediately under the first day's entry, might

look like this:

Tuesday - January 2nd, 1994

\$60 - Deposit  
\$11 - Check to Printer  
\$11 - Consulting Manual - H.P. Barnum, 33351  
\$3 - Tax-Saving Report - Rulon Collins, 21265  
\$3 - Seminar Promoter's Report, Kim Novak, 90631  
\$7 - H/B Business Ideas Report - Charles Johnson, 97620  
\$10 - Hong Kong Directory - Robert Carpenter, 89401  
\$2 - Money Getter's Guild Member - Glen Brinks, 83801  
\$15 - How To Steal \$1,000,000 Free Publicity - Joe O'Malley, 77919  
\$20 - New Release Program - Nancy Hall, 82109  
TOTAL INCOME: \$7...+EXPENSES: \$11...DEPOSIT: \$60

And then, carry on with this recording of the money you deposit, receive and spend each day with similar entries for each day of the week - every day Monday through Saturday for each week. It's simple, uncomplicated, and a positive record of your business activity.

Then at the end of each month transfer this daily diary information to one of the low cost bookkeeping registers that your tax consultant or accountant can work from. These people won't work from your daily diary, and will not transfer the information you record in it to a formal bookkeeping register without charging you a small fortune. It's not that big of a job, and if you do it after the close of business on the last day of each month, it won't take you but just a very few minutes. Then, of course, when you're ready to file your taxes, you simply give your bookkeeping register to whoever is going to do your taxes, and you're home free.

The bookkeeping register you'll need can be any simple columnar notebook - we use an "Ekonomik Register, Form RL-17" available in a number of different styles and sizes from Ekonomik Systems - PO Box 11413 - Tacoma, WA 98411. All you really need is some sort of notebook with a number of columns marked off, a title written at the top of each column, and a record of the money received for each day relative to the product or service each column represents. Then at the end of each month, you can simply add the totals from each column and you'll instantly know how much money you took in from each of your offers.

Beyond the date column, will be your record of expenses or money spent. Again, you should title each of the columns you'll be entering figures into, and then record your expenditures for items falling into those categories. Then at the end of each month, it's a simple matter to add the totals from each column and know exactly where you stand relative to profit or loss - how much you took in compared to how much you spent.

Bookkeeping and/or accounting is very simple and should not scare you. Just keep it simple, and up-to-date.

#### BUSINESS SURVIVAL TIPS FOR THE 90'S

You may be in Mail Order, Direct Mail, or you may be a local merchant with 150 employees or more; whichever, however or whatever, you've got to know how to keep your business alive during economic recessions. Any time the cash flow in a business, large or small, starts to tighten up - the money management of that business has to be on the ball.

Some of the things you can do and should do, include protecting yourself from expenditures made on sudden impulse. We've all bought things or services we really didn't need, simply because we were in the mood, or perhaps due to the flamboyancy of the advertising, or even because of the persuasiveness of the salesperson. Then we sort of "wake up" a couple of days later and find that we've committed business funds to hundreds of dollars for an item or service that's not really essential to the success of our own business.

If you're incorporated, you can eliminate these "impulse purchases" by including within your by-laws a clause that states: "all purchasing decisions over a certain amount are contingent upon approval by the board of directors." This will give you a chance to consider any "impulse purchases" a second time after you've had a chance to think about the need for your purchase.

If your business is a partnership, you can tell whoever it is that attempts to sell you something, that all purchase decisions are contingent upon the approval of a third party. In reality, the third party can be your partner, one of your department heads or even one of your suppliers.

If your business is a sole proprietorship, you don't have much to really worry about because as an individual you have three days to think about your purchase, and then to nullify that purchase if you think you really don't need it or can't afford it.

Especially in times of emergency, be sure that you don't "short-change" yourself on professional services.

Anytime you commit yourself and move full-speed ahead without fully investigating all the angles, and preparing yourself for all the contingencies that may arise, you're skating on thin ice. Regardless of the costs involved, it always pays off in the long run to

seek out the advice or experienced professionals before embarking on a plan that could ruin you.

As an example, an experienced business consultant can fill you in on the 1244 stock or Sub-Chapter S advantages. A very simple process, but one with tremendous monetary benefits to businesses.

The 1244 status encourages investors to put equity capital into your business because in the event of a loss, amounts up to the entire sum of the investment can be written off in the current year. Without the "1244" classification, any losses would have to be spread over several years, and this of course, would severely lessen the attractiveness of your company's stock. Any business owner who has not filed as a 1244 corporation, has in effect, but himself off from 90-percent of his prospective investors.

Particularly when sales are down, you must be "hard-nosed" with people trying to sell you luxuries for your business. When your business is booming, you undoubtedly spend more time allowing different sales people to show you new models of equipment or a new line of better-looking supplies, but when your business is down, skip the entertaining frills and concentrate on the basics. Great care, however, must be taken to maintain courtesy and allow these sellers to consider you a "friend," and call back at another time.

Whoever maintains your company's books should reflect your way of thinking, and generate information according to your policies. Thus, you should hire an outside accountant or accounting firm to figure your return on your investment, as well as the turnover on your accounts receivable and your inventory. Such an audit or survey should focus in depth on any or every item within your financial statement that merits special attention. In this way, you'll probably uncover any potential financial problems before they arise.

Many small companies set up advisory boards or outside professional people. These are sometimes known as Power Circles, and once in place, the business always benefits, especially in times of short operating capital. Such an advisory board or power circle should include an attorney, a certified public accountant, civic club leaders, owner/managers or businesses similar to yours, and retired executives. Setting up such an advisory board of directors is really quite easy because most people you ask will be honored to serve.

Once your board is set up, you should meet about once a month and present material for review. Each meeting should be a discussion of your business problems

and an input from your advisors relative to possible solutions.

These members of your board of advisors should offer you advice as well as alternatives, and provide you with objectivity. No formal decisions need to be made either at your board meetings nor as a result of them, but you should be able to gain a great deal from the suggestions you hear.

It should be that most of your customers have the money to pay at least some of the money they owe you, immediately. To keep them current and the number of accounts receivable in your files to a minimum, you should call them on the phone and ask for some kind of explanation why they're falling behind. If you develop such a habit as a standard part of your operating procedure, you'll find your invoices will magically be drawn to the front of their piles of bills to pay. Do not be hesitant nor too much of a "nice guy" when it comes to collecting money.

Something else that's a very good business practice, but which few business owners do is to methodically build a good credit rating with their local banks. Particularly when you have a good cash flow, you should borrow \$100 to \$1,00 from your banks every 90-days or so. Simply borrow the money - place it in an interest-bearing account - and then pay it all back at least a month or so before it's due. By doing this, you'll increase the borrowing power of your signature, and strengthen your ability to obtain needed financing on short notice. This is a kind of business leverage that will be of great value to you if or whenever your cash position becomes desperate.

By all means, you should join your industry's local and national trade associations. Most of these organizations have a wealth of information available - everything from details on your competitors, to average industry sales figures, to new products, services and trends.

If they give you a membership certificate or wall plaque, you should display these conspicuously on your office wall. Your customers like to see such "seals of approval" and place additional confidence in your business when they see them.

Still another thing often overlooked - if at all possible, you should have your spouse work in the business with you at least 3 to 4 weeks per year. The important thing is that if, for any reason, you are not available to run the business, your spouse will be familiar with certain people and situations about your business. These people should include your attorney, accountant, any consultants or advisors, your major suppliers and creditors. The long-

term advantages of having your spouse work four weeks per year in your business with you, greatly outweigh the short-term inconvenience.

Whenever you can, and as often as you need it, you should take advantage of whatever free business counseling is available.

The Small Business Administration has many excellent booklets, checklists and brochures available on quite a large variety of businesses. They also have management and financial assistance programs that can definitely benefit just about any small business. Most local universities, and many private organizations hold seminars at very minimal costs, often without charge. You should also take advantage of free services offered by your bank and local library.

You may feel no great need for continuing education courses, but if you learn even one new bit of information that will be of ultimate benefit to you or your business, the little time spent at a seminar or in a night course, will be a wise investment.

The important thing about continuing education courses, but if you learn even one new bit of information that will be of ultimate benefit to you or your business, the little time spent at a seminar or in a night course, will be a wise investment.

The important thing about running a small business is to know the direction in which you're heading - to know on a day-to-day basis, your progress in that direction - to be aware of what your competitors are doing - industry trends and sales figures for businesses comparable to the size of yours - to practice good money management at all times - and to prepare yourself to solve your problems before they arise.

Generally speaking, times are always tough for small businesses. In order to survive with a small business, regardless of the economic times, it is essential that you surround yourself with smart people, and practice sound business management at all times. Be sure that if you are doing well now, you will continue to be successful in the future.

## CHECK LIST FOR GOING INTO BUSINESS

### Summary

Thinking of owning and managing your own business? It's a good idea--provided you know what it takes and have what it takes.

Starting a business is risky at best; but your chances of making it go will

be better if you understand the problems you'll meet and work out as many of them as you can before you start.

Here are some questions and work-sheets to help you think through what you need to know and do. Check each question if the answer is YES. Where the answer is NO, you have some work to do.

#### Before You Start

How about You?

Are you the kind of person who can get a business started and make it go?

(Before you answer this question, use worksheet number 1.)

Think about why you want to own your own business. Do you want to badly enough to keep you working long hours without knowing how much money you'll end up with?

Have you worked in a business like the one you want to start?

Have you worked for someone else as a foreman or manager?

Have you had any business training in school?

Have you saved any money?

How about the money?

Do you know how much money you will need to get your business started?

(Use worksheets 2 and 3 to figure this out.)

Have you counted up how much money of your own you can put into the business?

Do you know how much credit you can get from your suppliers--the people you will buy from?

Do you know where you can borrow the rest of the money you need to start your business?

Have you figured out what net income per year you expect to get from the business?

Count your salary and your profit on the money you put into the business.

Can you live on less than this so that you can use some of it to help your business grow?

Have you talked to a banker about your plans?

How about a partner?

If you need a partner with money or know-how that you don't have, do you know someone who will fit--someone you can get along with?

Do you know the good and bad points about going it alone, having a partner,

and incorporating your business?

Have you talked to a lawyer about it?

How about your customers?

Do most businesses in your community seem to be doing well?

Have you tried to find out whether stores like the one you want to open are doing well in your community and in the rest of the country?



Do you know what kind of people will want to buy what you plan to sell?  
Do people like to live in the area where you want to open your store?  
Do they need a store like yours?  
If not, have you thought about opening a different kind of store or  
going  
to another neighborhood?

(Questions continue after Worksheets No. 1 and 2.)

#### Worksheet No. 1

Under each question, check the answer that says what you feel or comes closest to it. Be honest with yourself.

Are you a self-starter?

- \* I do things on my own. Nobody has to tell me to get going.
- \* If someone gets me started, I keep going all right. Easy does it.  
I don't put myself out until I have to.

How do you feel about other people?

- \* I like people. I can get along with just about anybody.
- \* I have plenty of friends--don't need anyone else. Most people irritate me.

Can you lead others?

- \* I can get most people to go along when I start something.
- \* I can give the orders if someone tells me what we should do.
- \* I let someone else get things moving. Then I go along if I feel like it.

Can you take responsibility?

- \* I like to take charge of things and see them through.
- \* I'll take over if I have to, but I'd rather let someone else be responsible.
- \* There's always some eager beaver around wanting to show how smart he is.  
I say let him.

How good an organizer are you?

- \* I like to have a plan before I start. I'm usually the one to get things lined up when the group wants to do something.
- \* I do all right unless things get too confused. Then I quit.
- \* You get all set and then something comes along and presents too many problems. So I just take things as they come.

How good a worker are you?

- \* I can keep going as long as I need to. I don't mind working hard  
for something I want. I'll work hard for a while, but when I've had enough, that's it.
- \* I can't see that hard work gets you anywhere.

Can you make decisions?

- \* I can make up my mind in a hurry if I have to. It usually turns

- out O.K., too.
- \* I can if I have plenty of time. If I have to make up my mind fast, I think later I should have decided the other way.
  - \* I don't like to be the one who has to decide things.

Can people trust what you say?

- \* You bet they can. I don't say things I don't mean. I try to be on the level most of the time, but sometimes I just say what's easiest.
- \* Why bother if the other fellow doesn't know the difference?

Can you stick with it?

- \* If I make up my mind to do something, I don't let anything stop me.
- \* I usually finish what I start--if it goes well. If it doesn't go right away, I quit. Why beat your brains out?

How good is your health?

- \* I never run down!
- \* I have enough energy for most things I want to do.
- \* I run out of energy sooner than most of my friends seem to.

Now count the checks you made.

How many checks are there beside the first answer to each question?  
 How many checks are there beside the second answer to each question?  
 How many checks are there beside the third answer to each question?

If most of your checks are beside the first answers, you probably have what it takes to run a business. If not, you're likely to have more trouble than you can handle by yourself. Better find a partner who is strong on the points you're weak on. If many checks are beside the third answer, not even a good partner will be able to shore you up.

Now go back and answer the first question.

## Worksheet No. 2

Estimated Monthly Expenses	Your estimate of monthly expenses based on sales of \$_____ per year	Your estimate of how much cash you need to start your business (See column 3)	What to put in column 2 (These figures are typical for one kind of business. You will have to decide how many months to allow for in your business)
Item			
-----			
----			
	Column 1	Column 2	Column 3
Salary of owner-manager	\$	\$	2 times column 1
-----			
----			
All other salaries & wages			3 times column 1
-----			
----			

Rent	3 times column 1
-----	-----
Advertising	3 times column 1
-----	-----
Delivery Expense	3 times column 1
-----	-----
Supplies	3 times column 1
-----	-----
Telephone and Telegraph	3 times column 1
-----	-----
Other Utilities	3 times column 1
-----	-----
Insurance	Payment required by insurance company
-----	-----
Taxes, incl. Social Security	4 times column 1
-----	-----
Interest	3 times column 1
-----	-----
Maintenance	3 times column 1
-----	-----
Legal and other professional fees	3 times column 1
-----	-----
Miscellaneous	3 times column 1
-----	-----
Starting Costs You Have to Pay Only Once	Leave column 2 blank
-----	-----
Fixtures and equipment	Fill in worksheet 3 and put total here
-----	-----
Decorating and redecorating	Talk it over with a contractor
-----	-----
Installation of fixtures & equipt	Talk to suppliers from who you buy these
-----	-----
Starting inventory	Suppliers will help you estimate these
-----	-----
Deposits with public utilities	Find out from utility companies

Legal and other professional fees	Lawyer, accountant, and so on
Licenses and offices permits	Find out from city what you have to have
Advertising and use promotion for opening	Estimate what you'll
Accounts receivable more	What you need to buy stock until credit customers pay
Cash expenses or purchases	For unexpected losses, special
Other and	Make a separate list enter total
Total Estimated Cash You Need To Start	Add up all the numbers in column 2

## Getting Started

### Your building

- \* Have you found a good building for your store?
- \* Will you have enough room when your business gets bigger?
- \* Can you fix the building the way you want it without spending too much money?
- \* Can people get to it easily from parking spaces, bus stops, or their homes?
- \* Have you had a lawyer check the lease and zoning?

### Equipment and supplies

- \* Do you know just what equipment and supplies you need and how much they will cost? (Worksheet 3 and the lists you made for it should show this.)
- \* Can you save some money by buying second hand equipment?

### Your merchandise

- \* Have you decided what things you will sell?
- \* Do you know how much or how many of each you will buy to open your

store with?

- \* Have you found suppliers who will sell you what you need at a good price?
- \* Have you compared the prices and credit terms of different suppliers?

Your records

- \* Have you planned a system of records that will keep track of your income and expenses, what you owe other people, and what other people owe you?
- \* Have you worked out a way to keep track of your inventory so that you will always have enough on hand for your customers but not more than you can sell?
- \* Have you figured out how to keep your payroll records and take care of tax reports and payments?
- \* Do you know what financial statements you should prepare?
- \* Do you know an accountant who will help you with your records and financial statements?

Your store and the law

- \* Do you know what licenses and permits you need?
- \* Do you know what business laws you have to obey?
- \* Do you know a lawyer you can go to for advice and for help with legal papers?

Protecting your store

- \* Have you made plans for protecting your store against thefts of all kinds--shoplifting, robbery, burglary, employee stealing?
- \* Have you talked with an insurance agent about what kinds of insurance you need?

Buying a business someone else has started

- \* Have you made a list of what you like and don't like about buying a business someone else has started?
- \* Are you sure you know the real reason why the owner wants to sell this business?
- \* Have you compared the cost of buying the business with the cost of starting a new business?
- \* Is the stock up to date and in good condition?
- \* Is the building in good condition?
- \* Will the owner of the building transfer the lease to you?
- \* Have you talked with other business owners in the area to see what they think of the business?
- \* Have you talked with the company's suppliers?
- \* Have you talked with a lawyer about it?

Making It Go

Advertising

- \* Have you decided how you will advertise?  
(Newspapers--posters--handbills--radio--mail?)
- \* Do you know where to get help with your ads?
- \* Have you watched what other stores do to get people to buy?

The prices you charge

- \* Do you know how to figure what you should charge for each item you sell?
- \* Do you know what other stores like yours charge?

#### Buying

- \* Do you have a plan for finding out what your customers want?
- \* Will your plan for keeping track of your inventory tell you when it is time to order more and how much to order?
- \* Do you plan to buy most of your stock from a few suppliers rather than a little from many, so that those you buy from will want to help you succeed?

#### Selling

- \* Have you decided whether you will have sales clerks or self-service?
- \* Do you know how to get customers to buy?
- \* Have you thought about why you like to buy from some sales clerks while others turn you off?

#### Your employees

- \* If you need to hire someone to help you, do you know where to look?
- \* Do you know what kind of person you need?
- \* Do you have a plan for training your employees?

#### Credit for your customers

- \* Have you decided whether or not to let your customers buy on credit?
- \* Do you know the good and bad points about joining a credit-card plan?
- \* Can you tell a deadbeat from a good credit customer?

#### A Few Extra Questions

- \* Have you figured out whether or not you could make more money working for someone else?
- \* Does your family go along with your plan to start a business of your own?
- \* Do you know where to find out about new ideas and new products?
- \* Do you have a work plan for yourself and your employees?
- \* Have you gone to the nearest Small Business Administration office for help with your plans?

If you have answered all these questions carefully, you've done some hard work and serious thinking. That's good. But you have probably found some things you still need to know more about or do something about.

Do all you can for yourself, but don't hesitate to ask for help from people who can tell you what you need to know. Remember, running a business takes guts! You've got to be able to decide what you need and then go after it.

Good luck!

Worksheet No. 3 List of Furniture, Fixtures and Equipment

Leave out or add items | If you plan to | If you are going to pay by  
 | Estimate of the  
 to suit your business. | pay cash in full | installments, fill out the  
 columns | cash you need for  
 Use separate sheets to | enter the full | below. Enter in the last  
 column | furniture, fixtures  
 list exactly what you | amount below and | your downpayment plus at  
 least one | and equipment.  
 need for each of the | in the last | installment.  
 |  
 items below | column.

		Price	Downpayment	Amount of
each				
installment				
Counters	\$	\$	\$	\$
\$				
Storage shelves,				
cabinets				
Display stands,				
shelves, tables				
Cash register				
Safe				
Window display				
fixtures				
Special lighting				
Outside sign				
Delivery equipment				
if needed				

|  
-----  
-----+-----  
Total Furniture, Fixtures, and Equipment (Enter this figure also in  
|  
worksheet 2 under "Starting Costs You Have To Pay Only Once." )  
\$
-----

## Buying and Selling a Small Business

By Verne A. Bunn

### About This Book

Going into business for oneself can be a great adventure--or a great disaster. Which it will be depends a great deal on how well the prospective owner prepares through investigation and analysis of the situation he or she is about to enter.

In some ways, the person who buys a going business has an advantage over the one who starts from scratch. For one thing, there are more facts to work with--if the buyer knows where to find them and how to use them.

These are the principal problems taken up in Buying and Selling a Small Business. What should the prospective buyer of a small business--or the seller--know before the buy-sell decision is made? Where can this information be found? How can the buyer or seller correlate and interpret the data? How does he or she apply the data to negotiating a buy-sell transaction?

This volume, now in second edition, does not pretend to give complete or specific answers. In some cases professional help is necessary, and in all cases the answers depend on many variables. Rather this booklet is intended to serve as a guide to areas needing investigation and to suggest some approaches that may be helpful.

The buyer of a small business faces more problems--and more difficult ones--than the seller. Because of this, Buying and Selling a Small Business may appear to give more attention to the buyer than to the seller. However, it is important for the seller to know how the buyer is likely to approach the negotiations; and wherever specific problems for the seller do come into the picture, they are discussed separately.

This booklet is issued as part of the management publications program of SBA's office of Management Information and Training.

Based in SBA's Kansas City Regional Office, the author, Verne A. Bunn, administers the Agency's management assistance programs for several states. He acquired his wide knowledge of small business in a variety of ways, including experience as a counselor of small business owners as well as



university research and teaching.

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### Part 1 The Buy-Sell Transaction

#### Chapter 1 - A Small Business Is Bought and Sold

IS THERE A SMALL-BUSINESS OWNER who has never considered selling his business? Probably not. Is there an individual with some money, talent, or an urge for independence (often only the last) who hasn't thought about owning his own business?

The number of small businesses actually bought and sold, however, represents only a small fraction of those who have felt these urges. To many people, the desire to buy or sell is only a passing thought. Others find various ways to solve their problems or satisfy their ambitions. But sometimes an individual doesn't follow through because he finds the prospect of buying or selling a business too baffling.

The objective of this manual is to describe the process of buying and selling a small business and to establish some guidelines. It will not remove the difficulties, but it will make them more manageable.

#### A Look at the Buy-Sell Process

It will be helpful to take a detailed look at what happens when a business is bought or sold. First, consider some of the thoughts that go through the

minds of the buyer and seller during the decisionmaking process.

THE SELLER: (Before the transaction) Shall I sell my business? What is it worth? How can I find a buyer? (During the transaction) How much shall I tell this guy about my business? Will he raise his offer? What terms shall I insist on? (After the transaction) Should I really have sold? I wonder if I could have got more money. Wonder how the business is getting along.

THE BUYER: (During the transaction) Shall I buy this business? I wonder why he really wants to sell. How much can I afford to pay? Where can I get the rest? How far will he reduce his price? (After the transaction) Now that I've bought it, which new idea shall I try first? Should I have known that would happen? It's going to work out just fine--isn't it?

These are typical thought patterns. They mark the flow of decisions in the transaction. They also reflect the doubts and hesitancy involved in the decisionmaking.

#### A Step-by-Step Account

The following step-by-step description of buying and selling a grocery store is basically the story of an actual case. To make it more typical of all buy-sell transactions, some questions and problems from other cases have been worked into the account.

Bill Smith wants to buy. Bill Smith had worked several years in grocery stores in Whitton, a city of 400,000. He had started as a carry-out boy and progressed through every job in a store operation.

Bill was anxious to own his own store. He and his wife were in their early forties and eager to establish a business of their own. They had saved about \$16,000, and Bill was confident that he knew enough about grocery stores to handle the operation. His wife planned to take care of the bookkeeping.

The Smiths had followed up many leads from the classified section of the newspaper. In every case, they found the business either too run down to salvage or too large to finance. Bill had also talked to a few real estate agents who specialized in business properties. But the agents' listings had not turned up anything that interested the Smiths.

In August, Bill learned from a food salesman that Sam Brown was trying to sell his store. Sam's Market was a small store on the other side of town. It had been operating for many years.

Sam Brown wants to sell. Sam Brown had been thinking about selling his business for several months. He was reluctant to do it because the store

had been established by his father. Yet he was finding the long hours he had to spend in the store a real hardship.

Furthermore, during the last 4 years, business had declined from a high of \$400,000 gross sales to less than \$200,000. The main reason for the decline in sales, in Sam's opinion, was the competition from several new supermarkets in his area.

Finally, he was concerned about a space of about 1,100 square feet at one end of the building in which the store was located. Sam owned the entire building and had been unable to find a tenant for this space for more than 3 months. Now a discount paint company had offered him a local franchise.

Sam believed he could use the vacant space for this operation and handle the business with much less effort than he was putting into the grocery store. If he could sell the grocery business and lease that part of the building to the new owner, he would have a comfortable arrangement.

The transaction. After talking to the salesman, Bill called Sam and expressed an interest in the store. They arranged several meetings to discuss the situation. Bill learned that Sam wanted to sell in order to take advantage of the paint-store opportunity. When Sam announced that he was asking \$50,000 cash and \$600 a month rent, the conversation went like this:

BILL: Could I spend some time with your books?

SAM: I can't let you do that. Most of my personal affairs are in those books. Besides, I don't want to be giving away everything about my business to someone who might be a competitor someday.

BILL: But I have to have something to go on!

SAM: Well, you ask me what you think you need to know, and I'll tell you--if I can.

During the discussions that followed, Bill learned the following facts about the store:

The modern fixtures and equipment had cost \$60,000 new. Now 6 years old, they had a depreciated value of \$30,000. The inventory had a wholesale cost of \$20,000. Gross sales were running about \$16,000 a month with a gross margin between 14 and 16 percent. In the past, annual sales had been as high as \$400,000. The 3,900 square feet of store space appeared well organized.

From this information and his observation of the store, Bill figured that he could increase sales to \$40,000 a month within a year by more aggressive sales promotion--handbills, radio spot announcements, an extra large neon

sign, and more personal service. This meant, in Bill's opinion, that inventory would need to be enlarged to \$24,000.

To better the profit, which had been averaging 2-1/2 percent of gross sales including Sam's salary, Bill believed the average markup should be raised from 18 percent to 20 percent. An additional increase in profit could be realized, according to Bill's analysis, if he reduced the staff by one full-time and one part-time clerk.

Bill was unable to borrow the difference between his \$16,000 savings and Sam's asking price of \$50,000. Several banks turned him down before one agreed to lend him \$20,000 at 11-1/2 percent interest with monthly payments over 5 years.

Sam refused Bill's offer of \$36,000 but offered to carry part of the price. After several more discussions, agreement was reached on the following terms:

1. \$24,000 cash.
2. \$22,000 unsecured note, payable monthly over 5 years at 12% interest.
3. \$400 a month rent.

Bill planned to use the \$12,000 cash left from the bank loan to increase inventory and provide working capital.

The store changed owners about September 1. Bill discovered that the inventory was worth only \$16,000 at wholesale cost. He immediately used \$8,000 to increase his shelf stock. Sales during the first few months increased to \$30,000 a month, and Bill felt sure he could reach his goal of \$40,000 a month. Profit, however, was running only 2 percent of gross sales in spite of Bill's attempt to increase margins and reduce costs.

A sad ending. Six months later, the doors were closed on Bill's Market. The remaining \$12,000 inventory was sold to a wholesale outlet for \$10,800. The fixtures were sold for \$16,400. Bill was trying to find a way to pay his debts and forget the loss of his life's savings.

Four months later, Sam still had not been able to rent the space formerly occupied by the food store. He had little prospect of recovering his loan to Bill, and he had lost over \$4,000 in rental income. He was undecided what action he should take.

#### The Big Question

Bill and Sam each thought he had received a fair value. But the final result showed that neither one had made a right decision. Both lost savings and income. What went wrong? How do you go about buying or selling a business?

An important question? To the Bills and Sams--past, present, and

future--few questions could be more important.

A difficult question? Either buying or selling a business requires personal, financial, and management decisions. At no steps along the way are the decisions easy to make. But it will be helpful to establish the basic steps or elements in a buy-sell transaction and then to examine each of these elements.

## Chapter 2 - The Flow of Decisions in a Buy-Sell Transaction

BUYERS AND SELLERS both seek answers to the same question: "What is this business worth?" Most people see the worth of a business as the total value of equipment and fixtures, inventory, and buildings and land. Important, certainly, but the sum of these values does not equal the value of the business.

Bill probably paid a fair price for equipment, fixtures, and the like. But did his price of \$40,000 reflect the value of Sam's Market? Obviously not. What, then, is the value of a business?

For both buyer and seller finding the answer to this question is the most difficult and at the same time the most important step in the buy-sell process. But this final decision reflects many other decisions made while the transaction is being considered. In other words, the buy-sell process is a flow of decisions. It would be impossible to point out every decision that must be made, but the basic ones are as follows:

Motivation: a decision to attempt the sale or purchase of a business.

Contact: a decision on how to find a buyer (or seller) for a business with specified characteristics.

Information: a decision on what information must be gathered or given to buy or sell a business.

Sources: a decision on how, where, and at what cost the needed information can be obtained.

Analysis: a decision on the meaning, importance, and reliability of the information gathered.

Value: a decision on what the business is worth.

Price: a decision on how much money to take or give for the business.

Financing: a decision on how to pay or receive the purchase price.

Contract: a decision on the form and content of the contractual relation.

Implementation: a decision on how and when to effect transfer of ownership.

### Motivation

What leads an owner to sell his business? It may be any of a large number of reasons: a personal health problem, a business disagreement, overextension of the company's activities, a desire to retire from business. The possible reasons are many and varied.

For Sam, the motivating factor was change. He found his sales decreasing in spite of his extra effort, competition increasing, empty building space impossible to rent. In other words, both internal and external factors had brought changed conditions that affected the business unfavorably.

Changed conditions should be analyzed carefully before a business owner accepts them as reasons for selling his business. The following questions can serve as a guideline for this analysis:

1. Have changes actually occurred in my business?
2. Are the causes of the changes beyond my control?
3. Are the causes of the changes within my control?

It would be unfortunate for a owner to sell his business because of changes he could control if, by such control, he could recapture a successful and satisfying operation. Every owner, therefore, should examine closely his motives for wanting to sell the business.

What makes an individual want to buy a business? Again, motivations will cover the whole range of human desires, from simple economic gain to social ladder climbing.

Bill's prime motivating factor was the desire to expand a special skill into a business of his own. Bill thought he knew enough about grocery stores to handle one of his own. But he didn't. This factor of a special skill represents one of the dominant reasons for wanting to buy a business.

It is a natural motive, but, perhaps because of its natural appeal, it can be a dangerous motive.

A business must be managed. An operating skill does not always lead to managing ability. In fact, it often encourages a business owner to spend his time operating instead of managing. Planning for the future, organizing resources, staffing the business with competent people, directing the coordination of people and operations, controlling results--these are the functions of management. Consequently, an individual with a skill seeking to buy a business in which to apply the skill should check his motivation by asking questions such as the following:

How important is management ability in this business?

Occasionally, a business that is unique and very simple almost manages itself. But if the business is in a competitive field, management ability is probably the most important requirement for success.

Do I have the ability to manage successfully?

Effectiveness with people (customers and employees), eagerness to tackle

difficult problems and make decisions, and intelligence about general business operations are key ingredients in management ability.

Can I learn how to manage this business?

Most people can learn to manage if they recognize the need. This requires room to make mistakes, however, and the self-discipline to undertake self-improvement programs.

Contact

Assuming that motives have been examined and that both seller and buyer are still interested, the next step is to get the two together. But there seems to be no "best way" to find a seller or a buyer for a business.

From the seller's point of view, the task of finding an interested buyer is the more difficult one, but there are many avenues to explore other than running advertisements in newspapers. He should ask himself these questions:

Have I told my employees and other business associates that I intend to sell the business?

Have I taken advantage of the broadcasting ability of salesmen who call on businesses similar to mine, of association meetings, of other trade contacts?

This informal advertising requires the same kind of information more formal advertising does. Business associates, trade contacts, and friends should be told the asking price, the terms, the anticipated return. Without this knowledge, a potential buyer can hardly be expected to respond positively. He needs to know in advance how the offer relates to his financial ability.

From the buyer's point of view, finding opportunities is relatively easy. The difficulty lies in locating a business he can analyze confidently. When he deals with unfamiliar firms, he is haunted by a desire for more information and suspicious about the information he does receive. A buyer seeking a seller should consider the following points:

Have I asked people I deal with about persons who might be considering selling a business?

Have I considered approaching businesses with which I am familiar about the possibility of a purchase?

Kinds and Sources of Information

At this stage, the buyer and the seller must decide what information about the business to seek or give. In the case of Sam's Market, information was brought out about three factors:

1. The nature of the business in the past.
2. Present condition of the business.
3. Relation of the past and present to future expectations.

Bill's approach was proper, but the information he gathered was meager support for decision making.

Some of the information a careful buyer will want may take a lot of money or time to gather. He must decide what sources of information are essential and which ones he can leave untapped. Bill, for instance, might well have inquired about local economic conditions. Full information, it is true, would have required a costly analysis, but consider what information he could have got from easily available sources:

1. Sales in the market had declined more than 50 percent.
2. Sam had been unable to rent commercial space in the building in which the market was located.
3. New supermarkets were operating in the same area.
4. Banks hesitated to gamble on the future of the market.

Bill might also have developed information about the future trend of the business, but that would have required time. He should have known the following facts about his financial program, however:

Available funds		\$36,000
Use of funds:		
Payment to Sam	\$24,000	
Planned increase in inventory	4,000	
Advertising	1,000	
Display sign	1,000	30,000
	-----	-----
Available for working capital		\$6,000
Expected new income per month (3% of \$30,000)	900	
Probable expense:		
Payment to bank	\$265	
Payment to Sam	295	
Sam's salary	?	

Bill had enough information available to know (1) that his sales expectations were too optimistic and (2) that even if he reached his sales goal, he would not be able to satisfy the cash demand on the operation. What happened could have been predicted.

#### Analysis

The word "predict" is important. The buyer should be able to follow through the steps listed below and predict with some confidence the future of the business.



What factors affect sales?  
 How will these market factors behave?  
 Therefore, what sales can I expect?  
 What makes up the cost of sales?  
 How will these cost factors apply to expected sales?  
 Therefore, what gross profit can I expect?  
 What expenses are required to run this business?  
 How will expenses develop under my ownership?  
 Therefore, what net profit can I predict?  
 What assets will the business need and possess?  
 What is the condition of these assets?  
 Therefore, what asset improvements will I have to make?  
 What credit does the business assume?  
 What is the condition of the credit position?  
 Therefore, what changes, if any, can occur in the debt structure?  
 How much cash do I have?  
 How much cash will the business generate?  
 Therefore, what will be my available-cash position?  
 What immediate cash outlay must I make?  
 What will be the cash needs of the business?  
 Therefore, what cash outgo will be necessary?  
 What will be my net cash position as things now stand?  
 What additional cash resource, if any, must I have?  
 Therefore, what financing plan shall I use?

#### Value

A business had a purpose. That purpose is to provide a satisfactory return on the owner's investment. Consequently, determining value involves measuring the future profit of the business being sold.

A seller often thinks of value as representing the money he has invested through his years of ownership. A buyer is tempted to consider value as a fair price for tangible items such as equipment and inventory. These factors are important, but they have value only to the extent that they contribute to future profits. An owner may have invested \$40,000, the tangible assets may have a current worth of \$20,000, but it is the profit potential that establishes the value of the total business.

Assuming that a reliable estimate of future profit is made, how much is to be paid for each dollar of profit potential? This computation is discussed in chapter 6, but the general approach is suggested by the following questions:

What am I buying (or selling)? A business, or a building full of equipment and inventory?

What return would I get if I invested my money elsewhere--in stocks, bonds, or other business opportunities?

What return ought I get from an investment in this business?

#### Price

It might seem that the price to be paid or received for a business would simply be equal to the value. However, value refers to what a business is worth; price refers to the amount of money for which ownership is transferred. There is usually a difference between price and value because the buyer and seller differ as to how much the business is worth. The price will represent negotiation and compromise. Here are two suggestions for fruitful negotiation:

- \* Discussion between buyer and seller should focus on the future profit performance of the firm. Since expected profit is basic to determining value, it can be a valuable point for negotiation.

- \* Every profit projection includes some assumptions and risks. Generally, the less firmly based the assumption and the more apparent the risk, the less value an expected profit can support. Consequently, identifying and analyzing risks involved in future operations can make discussions between buyer and seller more significant.

These two points will help bring negotiations about value toward a mutually acceptable price.

## Financing

When the price has been settled, the question of how to finance it remains.

Financing a buy-sell transaction involves these five factors:

1. The amount of capital required.
2. The type of capital required.
3. The specific uses to which the capital will be put.
4. The length of time needed to pay back the capital source from the business operation.
5. The sources of available capital.

How much? Bill's failure after buying Sam's Market illustrates a common problem--underestimating the amount of capital required to purchase a business. Capital must be available not only to pay the purchase price but also for (1) funds to operate until the business is generating cash, (2) funds to meet unexpected expenses, and (3) funds as a reserve to allow for errors in expectations. A buyer must think beyond the purchase price to determine the amount of capital he needs. Unless he does he will find his resources embarrassingly and probably disastrously wanting. Here are some questions that must be asked about his capital needs:

Do I have enough capital to pay the purchase price?

Do I have enough capital to support 1 to 3 months' operations--such as payroll and other cash expenses--while the business reaches a self-supporting stage?

Do I have some extra capital to cover needs I may have overlooked (perhaps 10 to 15 percent of the purchase price?

Types of capital. There are two basic types of capital: (1) equity capital--investment in the business by the owner or owners, and (2) debt capital--borrowed capital that must be repaid.

Equity capital is often called risk capital. Those who furnish the equity capital are expected to take the primary risks of failure and to reap the benefits of success. The equity capital provides a margin of safety for a lender. The greater the amount of equity capital, other things being equal, the easier it is to get debt capital.

The primary source of equity capital is the personal savings of the buyer of the business. Although many small businesses are incorporated, the sale of stock is seldom a source of capital for the small business.

Few buyers, however, have enough personal savings to finance the purchase of a small business without any debt financing. An individual may borrow money for the purchase of a business by obtaining a personal loan, by borrowing against insurance policies, or by refinancing the mortgage on his home. These debts are not direct debts of the business, but the debts of a small business and the personal debts of the owner cannot be completely separated. Banks are the principal institutional source of debt capital for small businesses.

The seller as lender. In the sale and purchase of Sam's Market, the buyer's savings plus a bank loan were not enough to finance the purchase. Bill (who needed more financing) and Sam (who wanted to sell his business) reacted in a manner quite common in the financing of the sale of a small business. Sam agreed to accept payment of part of the purchase price over an extended period of time.

The seller is sometimes a source of capital to the buyer of a small business, as in Bill's case. A happy circumstance if it is handled properly. Before jumping at the chance, however, the buyer should ask himself these questions:

Is there a good reason why commercial lenders would not approve my loan request?

Is the seller so interested in getting out from under the business that he will take an unwise risk?

Am I sure the business is as good as it looks?

Can the business support the debt payments to which I am obligating myself?

In the light of Sam's experience, the seller, too, should pause long enough to answer some questions before he accepts an extended payment plan.

How serious will it be if the buyer is unable to make his payments?

What security do I have to protect my position?

How capable of operating my business successfully is the buyer?

#### .Contract and Implementation

Every step so far in this discussion has involved forecasting. From motivation to finance, the buyer and the seller must anticipate characteristics, developments, and problems that may develop. The contract between the parties embodies the resulting basic agreements about the business and the relation between buyer and seller. A "good" contract is meaningless if the earlier steps in the process have been carried out carelessly or not at all.

### Part 2 Sources of Information for Buy-Sell Decisions

#### Chapter 3 - Sources of Market Information

TWO BASIC QUESTIONS face the prospective buyer or seller of a small business when he starts to gather information for his decisionmaking:

"What kinds of information do I need?"

"Where can I get this information?"

The information needed can be grouped into three general types: (1) market information, (2) financial information, and (3) legal information. The purpose of this chapter and of chapters 4 and 5 is to identify still further, within these groups, the kinds of information the buyer or seller should look for and some sources of that information. Not all of the sources listed will apply equally to all kinds of businesses. The buyer or seller will have to determine for himself the extent to which the specific types of information will help him reach a sound decision.

Some difficulty may arise in the information-gathering stage because of poor records, unavailability of some information, lack of cooperation, and the like. The seller has the advantage as far as internal data are concerned. He has free access to his own records; the buyer does not. If the buyer needs internal information to reach a decision, it should be made available to him. He should insist on seeing the company records and be wary of any seller who refuses to give him the information he needs.

Either seller or buyer may have to spend considerable time and effort digging out the information. The sources suggested below, however, should

help him gather the basic types of information needed in the decisionmaking process.

#### Importance of Market Information

The first and most logical step in buying or selling a business is to conduct a market analysis. A market analysis is a study of the present position of the business within its market area and of probable future patterns. It should include the growth pattern of the business being sold, the state of the market, the nature and extent of competition--all factors, in fact, that will show the present market position of the business or that will affect its future.

A market analysis should indicate whether the purchase or sale of the business should be considered further. It will help the seller decide what valuation to place on the business for sale purposes. It will help the buyer decide how much he should pay, and it will also give him a clearer picture of just what he is buying. A market analysis has the added value of making it possible to develop more accurate sales forecasts. It places greater emphasis on fact and less on hunch and guesswork.

The specific nature of the business being bought or sold will determine much of the market information needed. A manufacturing business with problems of marketing and distribution will need information not necessarily pertinent to a retail or service business, with its more localized market. The following areas of market information are designed to suggest sources that may be useful to the buyer or the seller in analyzing the market of the business.

#### Sales Information

An investigation should be made of the sales history of the company. At least 3 years' sales should be examined and preferably 10 years'--or the entire sales history of the company if it is a new one.

The manner in which the records are kept will determine to a large extent the availability of sales information. Many small businesses keep little in the way of sales records--often only what is necessary for tax purposes. Others have bookkeeping systems designed by business-machine manufacturers, trade associations, or professional accounting services. The more standardized the procedure, the more useful the information is likely to be for market analysis.

Most States now have sales taxes, and this may provide a useful source of information. Whether or not a business is required to keep sales-tax records depends largely on the type of business and the State requirements. Sales-tax laws are not uniform, and what is required in one State may

not  
be required in another.

If most of the business is done on a credit basis, accounts receivable may give useful sales information. If this source is used, the market investigation should be concerned only with the amount of credit sales and not with the effectiveness of the collection of accounts receivable.

Ingenuity and common sense can often turn up sources of sales information. In one case, for example, sales for a self-service laundry were determined by using water capacity per machine, city records of the amount of water consumed by the business, and price per load.

Regardless of where the sales information comes from, the purpose of gathering it is basically the same--to identify the pattern or trend of sales over the past and to use this information to project or estimate sales for the period ahead. Such an investigation is especially useful in determining the value of the business above the value of the assets.

#### Cost of Goods Sold

A study of the cost of goods sold is also important in determining the market position of the business. Cost of goods sold is the cost of merchandise purchased by the business for resale, including freight and other charges. The difference between sales and the cost of the goods sold is called gross margin or gross profit. The higher the cost of goods sold in relation to sales, the lower the gross margin--and the net profit.

Many factors, both within the company and in the market of which the business is a part, affect the cost of goods sold. An investigation should be made to determine the following:

1. Average rate of stock turnover, particularly as compared to the normal or typical rate for similar businesses.
2. Extent to which invoices are being discounted. Paying invoices in time to earn the cash discount will increase both gross margin and net profit if the discount is recorded as a reduction in the cost of goods sold. A direct increase in net profit will result if the discount is shown as "other income."
3. Freight costs to determine whether incoming transportation charges are in line.

Among the records to be studied are vendor invoices, records of merchandise payments to vendors, shipper receipts or bills of lading, and records of past physical inventories.

## Sales-Effort Records

This information has to do with how much it costs in selling effort to produce a given volume of sales. It involves two types of costs: (1) advertising costs, from invoices and statements for various forms of advertising and promotion; and (2) salaries and wages paid for selling, from payroll or Social Security records. If the business maintains sales-people in the field, as a manufacturer might, information on reimbursable travel expenses should be included.

The purpose of gathering information on selling costs is to determine how well these costs are being utilized and to compare them with average figures for the kind of business being studied.

## Personal Observation

Personal observation of the premises and personnel of the company is another source of information for the buy-sell process. Just what points should be noted will depend on the nature of the business, but the following are offered as examples:

The general appearance of the premises, both internal and external, may be important, particularly if direct customer contact is made at the place of business.

Plant layout and apparent efficiency of operation should be carefully observed if the seller is a manufacturer or otherwise engaged in processing or assembly.

Employee morale and general attitude toward the business should be noted, especially if current employees are to be retained.

Employee records, including wage-payment plans, employee-evaluation and merit rating programs, training programs, and so on should be studied.

## Market Information From Outside Sources

Sources of market information outside the business fall into two general classes: (1) competing businesses, and (2) the total market of the business and the factors that enter into it. Analyzing market characteristics involves dealing with constantly changing forces. This is in contrast to the internal analysis, which concerns basically historical records.

Competition. Unless the business has a monopoly of some sort, a study of the competition should be included in the market analysis. The competition may be local and well defined, or quite generalized, depending on the nature of the business and of the market.

Trade associations and other data-gathering agencies, both governmental and nongovernmental, are sometimes helpful in this area. A good deal of the information about competition, however, must come from direct investigation, business by business.

Such factors as these are of interest: estimated sales, advertising and promotion, services offered, performance of sales personnel, businesses entering and leaving the competition recently, changes in the competitive structure through product mix or services offered, pricing policies, and other factors that form a part of the competitive patterns for specific types of businesses. A very important aspect of competition is the extent to which the total weight of competition has expanded the market for certain types of products or kinds of businesses, and the direction this is taking.

Location. In certain businesses, location may not be too important, providing the physical plant is structurally sound and suitable for the business. In other cases, location may be a vital factor. An important point that should be looked into is the status of the location and any plans for proposed changes that may have an adverse effect on the future of the business. Urban renewal programs are causing many small businesses to look for new locations. So are changes in highways and streets, flood-control programs, changes in zoning ordinances, and the like.

The buyer, whether he will own the physical plant or lease it, should look into the possibility of future expansion. Consulting a competent architect or engineer now may save trouble later on if the buyer should want to expand and leasing provisions allow him to.

Population and purchasing power. The number of people within the market area and the amount of spendable income they have are important market factors. For many kinds of businesses, the total population is less important than certain segments of the population. A business selling hearing aids, for example, will be interested only in persons who have hearing difficulties.

In gathering information on income and expenditures, three factors should be kept in mind: (1) the total purchasing power based on total population; (2) the average or median income for the typical family unit; (3) the amount or percent of expenditures for various types of goods and services.

General population figures are obtained from Federal, State, and local government sources. The Federal census, taken every 10 years, gives not only total population figures but also breakdowns that are useful in many business situations. For most of the larger cities, census figures are further classified by sections within the city on the basis of certain population and economic characteristics. These sections are called census tracts.

Business population figures may be available from numerous sources. The Yellow Pages of the telephone directory and the city directory are local sources that are immediately available. Chambers of commerce, trade



associations, and State and Federal government agencies can often be helpful.

The 10-year census reports the income for 20 percent of the total population on a National, State, county, city and census-tract basis. Other information issued by the Department of Commerce can also be useful.

Many trade associations report the results of research on consumer expenditures. Other sources of data on income include the following: (1) planning commission offices, (2) employment offices, (3) research done by newspapers, (4) building permits, especially in newly developed areas, and (5) mortgage and loan companies. Numerous fact-gathering agencies develop and publish estimates of consumer income and expenditures for various classes of goods and services.

General market conditions. A much broader yet vital part of the market analysis has to do with what might be called the general state of the market. Most of the discussion of market analysis so far has dealt with factors that have a direct influence on the business being bought or sold: company sales, location, competition, and so on. But these, in turn, are influenced by the overall economic conditions of the country and of the market area. These may be widespread movements such as national cycles of prosperity and depression, or they may be purely local conditions. The two extremes are not necessarily related.

It is to the advantage of the buyer or seller to have a clear understanding of economic factors that affect or are likely to affect the status of the business. The significance of this information becomes clearer when forecasts and estimates are made.

Some questions to be used as a guide in market analysis are given in chapter 12.

#### Chapter 4 - Sources of Financial Information

BOTH BUYER AND SELLER are interested in financial information, affecting the buy-sell transaction. However, since the seller already has this information, it is a major requirement for the buyer to get and make use of as much of it as possible.

The buyer can usually find financial information in the following places:

(1) financial statements, (2) income-tax returns, (3) other internal records, and (4) other external sources.

#### Financial Statements

The results of the financial transactions of every company should be reflected in its periodic financial statements. These statements are extremely important in buying or selling a small business. They were prepared for the seller, of course, and their contents are available to

him. But the buyer, too, should be aware during the early stages of a buy-sell transaction of the information contained in financial statements.

Balance sheet and income statement. The balance sheet is a statement of the financial position of the business at a given moment in time. The income statement is a summary of the revenue and expenses of the business during a specified period of time. These financial statements show only the past results of the company's transactions. The results of future operations may or may not be similar.

Balance sheets and income statements in themselves contain important information, but they are most useful when a professional accountant makes a detailed analysis of them. A complete analysis includes a review of the manner in which the statements were prepared, and perhaps also a review of the records and control features of the accounting system. This is especially important in a small business buy-sell transaction because the financial statements of smaller companies are not usually as professionally prepared as the statements for larger companies. An accountant should be brought into the buy-sell transaction as early as possible by the seller as well as by the buyer.

Audited statements. In many buy-sell transactions, the statements are supplied by the seller, but the buyer reserves the right to conduct an audit of the seller's records. Or the buyer insists that the seller "warrant" his financial statements. Warranty of financial statements by the seller should be accepted with caution, however, because there does not seem to be any uniform definition of the term warranty.

If the seller's financial statements are prepared by an independent accountant, the statements should show whether they were (1) prepared after an audit of the seller's accounts, or (2) prepared from the seller's records without verification by audit. If they were prepared without verification by audit, they may be quite similar or even identical to statements that would have been prepared by the seller's own bookkeeper. If they were prepared after an audit, they should include a statement of the accountant's opinion.

Financial statements prepared without such an audit may or may not reflect the financial position or results of operation of the company. Most small companies do not have their records audited annually, but without an audit it is impossible to tell how accurate the statements really are.

Other considerations. The buyer should request balance sheets and income statements for at least 3 and preferably 10 years. If the seller is a

new company, financial statements for the entire life of the company should be requested.

Other financial statements are sometimes available to the buyer. These include such items as statements of cost of goods manufactured (if the seller is a manufacturer), application of funds, and variances from the budget.

Another point the buyer should consider is the cutoff period for the financial statements. The statements may have been cut off during the low period of the sales cycle or during the high period. This has some bearing on the financial position reflected in the statements.

More detailed information on financial statements and their analysis is given in chapters 9, 10, and 11.

#### Income-Tax Returns

If independent accountants did not prepare the financial statements, the seller may or may not have complete sets of statements. He should have at least an annual income statement--that much is required for income-tax purposes. If the seller is a partnership or corporation, the tax returns should have balance sheets attached. If the seller is a sole proprietorship, tax returns will not show balance-sheet data.

Financial statements prepared for income-tax purposes may be very different from statements prepared in conformity with generally accepted accounting principles. Those prepared for tax returns are designed to present the desired tax position in compliance with the income-tax laws. Financial statements for nontax purposes have different objectives and therefore may reflect different financial information.

Many small companies prepare financial statements only for income-tax purposes and use those statements for all management decisions. This may or may not give the desired results. The parties to a buy-sell transaction are interested in statements reflecting the tax position, but they should concern themselves also with statements reflecting nontax items.

The buyer should request copies of tax returns for at least 3 and preferably 10 years or, if the seller is a new company, for the life of the company. The tax returns are more important in buying the stock of a corporation than in buying the assets of a corporation, partnership, or sole proprietorship.

The corporation is an income-tax entity; the partnership and sole proprietorship are not. A partnership is required to file income-tax information returns but does not pay income taxes as a company--the taxable income is passed on to the partners, and they pay the tax as individuals.

No tax return is filed for a sole proprietorship, but the income statement is included as a part of the sole proprietor's personal income-tax return.

The buyer should find out which tax returns have been examined by the Internal Revenue Service and which have not. This is particularly important if the buyer is purchasing the stock of a corporation. If a corporation with an operating loss is being acquired, the loss might have value and the buyer should satisfy himself as to whether this net operating loss can be utilized. In many instances, the only information available to the buyer is that found with the income-tax returns.

#### Other Internal Sources

The financial statements are usually supported by detailed analyses of selected accounts. This might include some of the following items:

Sales may have been analyzed by customer, product, division, salesman, time period, and any other classifications necessary.

Purchases may be classified according to product, time period, territory, supplier, or other classification.

If the seller is a manufacturer, he may have cost-control reports that include analyses of material costs, labor costs, overhead cost, scrap sales, spoiled and defective goods, and other items.

There may be a cash-flow statement--perhaps incorporated with the analysis of collections of accounts receivable--and even a projection of cash requirements.

The seller may have a regular budgeting program with projections into the near or distant future. It is common practice for the buyer to require the seller to make a projection for at least a year from the date of the proposed transfer. The buyer should insist on this projection.

#### Other External Sources

The seller's suppliers are an excellent source of information for the buyer. They can provide records showing the volume of purchases by the seller. This information may be difficult to get in some cases, particularly if the seller informs his suppliers that it is proprietary information.

Another source of data is the seller's banker. A banker can supply information about cash position, line of credit, and other fiscal data. He may, however, be reluctant to release this information.

The seller may have filed payroll-tax reports, sales-tax reports, excise-tax reports, ICC reports, or any of many other government

reports.

Some of this information is available to a buyer.

The buyer may seek information about the seller from credit agencies or credit associations related to trade associations. Usually, the buyer must have a contact with these agencies in order to get the information, but there are many ways to get reports about the seller.

A number of organizations, including trade associations, supply information about industry averages. These averages are very important to the buyer for judging the effectiveness of the seller.

#### Advice to the Seller

The seller, for his part, should be cautious about releasing information to the buyer. It is entirely possible that the supposed buyer is a competitor, or may be one in the future. Often a seller is so anxious to sell that he supplies any information requested by the buyer without even getting a good-faith deposit. He may spend many dollars in collecting the data for the buyer. A seller should not supply any information to anyone without first discussing the matter with his accountant and his attorney.

#### Chapter 5 - Sources of Legal Information

THE PROSPECTIVE BUYER OF A BUSINESS can play an important role in the discovery of legal problems that may affect the value of the business and his decision on whether to buy. Legal opinions are the responsibility of the buyer's attorney, of course. But the attorney must often rely on the buyer as his source of internal information about the business--information he will need in making his legal recommendations. It is therefore important that the buyer have some idea as to what his attorney will expect of him.

As in any sales, the basic legal problem in the purchase of a business involves the transfer of ownership or title to property. How serious the title problem is varies from one business to another, depending on the nature of the assets being purchased.

If the transaction involved only the transfer of good title to a single piece of real estate, it would be a simple matter. But buying and selling a business typically involves a conglomeration of assets--inventory, fixtures, vehicles, and equipment, all of which are movable, and assorted contract rights under leases, sales agreements, patent licenses, and so on, which are intangible.

Each asset has its own ownership aspects. It is important to ask this question about each asset: "Is the buyer getting the ownership rights he assumes he is getting?"

An even more careful investigation from a legal point of view is called for when the buyer either assumes liabilities or purchases the stock of a corporation. Even the risk of potential liabilities--liabilities that may occur in the future because of past events--may be reduced by proper investigation.

Both internal and external sources of legal information are usually available to the buyer and his attorney for examination. The buyer should not rely solely on the oral statements of the seller as to important aspects of the business. Any statements of the seller that have to be accepted without support from other sources should be incorporated into the buy-sell contract as warranties.

How much information should a buyer obtain about a business before legally committing himself to purchase? There is no easy answer to this question, but the buyer should realize that the legal risk he assumes is about inversely proportional to the amount of information he has obtained about the business.

#### Internal Sources of Legal Information

Among the internal sources of legal information are copies of contracts, evidences of ownership, and organizational documents. Personally examining the business premises and questioning the seller and his employees may be the only source of information about some assets.

Contracts. The buyer and seller are both concerned with the rights and obligations created by outstanding contracts with suppliers, customers, creditors, employees, lessors, and so on. The seller is concerned with his liability for any breach of contract that may result from sale of the business. He should know that ordinarily only contract rights, and not contract obligations, may be transferred to a third party without the consent of the other party to the original contract. Sublease arrangements and mortgage assumptions are examples of this. The seller remains liable even though the buyer takes over the lease or mortgage as part of the buy-sell contract.

Here is an example involving a lease. A food merchant sold one of his smaller stores at what he considered a good profit. The sale price covered inventory, fixtures, and goodwill, for which the seller received \$56,000. He had purchased the business 2 years before for \$30,000.

The building was leased, and the seller was not able to assign the lease to the new owner of the business. He was, however, permitted to sublease the building for the remainder of the lease. The lease amounted to \$1,300 a month.

Recently, sales have been decreasing to the point where the present owner has threatened to give up the business and take his loss. If he should do so, the former owner will be liable for the remaining 2 years' lease. Unless he can find another tenant, he may lose all he gained from the sale and more.

Assignment of contracts. The buyer often wants any contractual rights of the seller that are needed in order to maintain the business as a going concern. In legal terminology, the transfer of contractual rights is called an assignment. Generally, a contractual right is assignable, but the original contract may expressly prohibit its assignment.

Such negative provisions are common in printed forms of leases. Loan agreements may prohibit the sale or other change in ownership of substantially all the business assets. Or they may call for speeding up payment of the principal if the assets do change hands. The buyer should get copies of important contracts and review them to determine whether they have nonassignment clauses.

A contract may be nonassignable, however, even without such a provision. This would be true if the contract rights are coupled with obligations of a personal character. For example, the seller's credit arrangements with a supplier are not assignable because they are based on the seller's reputation as a credit risk. A contract for the manufacture of certain goods may not be assignable because the customer, when he signed the contract, knew and was relying on the superior workmanship of the seller. Likewise, a supplier's agreement to supply the seller's manufacturing requirements of certain raw materials may not be assignable because the requirements of the new owner are uncertain.

Both buyer and seller should remember that third parties will, in all probability, have to be reckoned with in carrying out the buy-sell transaction. If the buyer must have a contract that is nonassignable and the seller is not a corporation, the only solution is to renegotiate the contract. In the case of a corporate seller, it may be possible to make the transaction a purchase of stock rather than assets.

Types of contracts. Following are some recommendations to the buyer about specific types of contracts:

Copies of real-estate leases should be obtained from the seller and examined for provisions relating to amount of rent, terms of payment, expiration, renewal, subleasing, repair, improvement, insurance, and so on. The buyer should pay special attention to the duration of the lease. If the term remaining is too short, either the lease should be renegotiated before the purchase or an option should be obtained to renew for an additional period. Leases for a specific term are often misleading because of provisions granting to one or both of the parties the right to terminate

the lease by giving a stated period of notice.

Copies of patent, trademark, trade-name, and copyright registrations should be obtained in order to determine the legal status of the right and whether it can be transferred.

The principle subject of the buy-sell transaction may be a contract right to be the exclusive agent, dealer or distributor of a product or line of products, or the right under license to use a patented process, trade name, or trademark. Copies of such contracts should be obtained to determine the precise nature of the right, its limitations, and the seller's power to transfer. Particular attention should be given to the exclusiveness of the right.

Copies of employment contracts and union agreements should be studied for terms relating to compensation, working conditions, duration of employment, termination, pension and profit-sharing plans, stock option, insurance programs, and so on. The buyer should find out whether key employees will remain with the company if the ownership changes hands. If the employees have not been organized, he should inquire about possible activities of union organizers among them.

The buyer should study outstanding sale and purchase contracts. Particular attention should be given to trade-credit, discount, installment payment, attention should be given to trade-credit, discount, installment payment, and security requirements. The buyer should get from the seller copies of conditional-sale contracts, purchase-money chattel mortgages, chattel leases, lease-purchase agreements, consignment contracts, and sale-on-approval and sale-or-return contracts to which the seller is a party.

The buyer should also get from the seller copies of financing agreements between the seller and commercial banks, finance companies, and other third-party lenders. Attention should be given to the term of the loan, repayment provisions, interest rate, finance charges, insurance requirements, acceleration provisions, security requirements, and recourse rights. The buyer will generally have to make his own financing agreements, but the seller's experience in financing the business will often suggest what the buyer can expect if he purchases the business.

A buyer's willingness to purchase accounts receivable, apart from his financial ability to do so, should depend on their apparent collectibility. The buyer should require the seller to submit a complete list according to the age of the accounts. Inquiry may disclose factors other than the



statute of limitations that would prevent collection.

A study of the seller's insurance policies may give the buyer some insight into the availability, adequacy, and cost of coverage of such risks as liability arising from manufacture or sale of defective products, liability to customers for injuries sustained on the premises, liability for property damage and bodily injury arising from negligent operation of company vehicles, liability to employees for injury under workmen's compensation laws, and property hazards such as fire, windstorm, and theft. The buyer should be aware, however, that premium rates based on the seller's experience may not be available to him.

Evidences of Ownership. The buyer should get from the seller a certified abstract of title for each parcel of real estate involved in the transaction. The abstract should be examined by the buyer's attorney. In addition to disclosing any defects in the title, examination of the abstract and the abstractor's certificate will usually show whether there are any unreleased mortgages, judgment liens, mechanics' liens, tax liens, or unpaid real-estate taxes and special assessments.

The seller should be asked to show evidence of his ownership of principal items of personal property in the form of bills of sales, receipts, assignments, motor-vehicle title certificates, and so on. Such evidence will not prove that there are no recorded liens against the property, but lack of it should alert the buyer to the possibility that personal property in the physical possession of the seller is rented, leased, borrowed, or delivered on consignment.

Organizational documents. If the seller is a partnership, the buyer should get a copy of the partnership agreement. If there is no written agreement, he should find out who the partners are and whether authority exists to sell the business assets.

If the seller is a corporation, the buyer should get a certified copy of the resolution of the shareholders authorizing the sale of the corporate assets. In a corporation stock transaction, he should get a copy of all organizational documents. These documents include the articles of incorporation and amendments to it, the corporate bylaws, stock-transfer books, and minutes of shareholders' and directors' meetings.

Observation and inquiry. Certain types of legal problems can be uncovered only by observation and inquiry. This is true of mechanics' liens. The basis for mechanics' liens against real estate may exist even though no lien is on file. If the buyer learns that there has been repair or construction within the allowable period for filing mechanics' liens, he should check with the contractors and suppliers to find out whether they have been paid.

The real estate should be examined to make sure that it complies with building codes and other ordinances. It is advisable also to have the

real estate surveyed to determine whether buildings are located within boundaries in compliance with setback lines, whether adjoining buildings or driveways are encroaching upon the property, and so on.

#### External Sources of Legal Information

Among the more common external sources of legal information are public records, government agencies, and third parties with whom the seller has had dealings.

Office of record. A down-to-date abstract of title will ordinarily disclose the existence of liens against a particular parcel of real estate, but liens against personal property of the seller can be discovered only by a search of the office of record. Separate filing systems may exist for chattel mortgages, conditional sales contracts, trust receipts, assignment of accounts receivable, and so on. Each of these files must be checked.

A record search will not disclose what items of personal property in possession of the seller have been rented, leased, borrowed, or delivered on consignment. Also, lien notations on motor-vehicle title certificates may take precedence over recording--it depends on State statutes.

Tax authorities. Investigation is especially important where the buyer is purchasing the stock of the seller or assuming liability for the payment status of Federal, State, and local income taxes, Social Security and income withholding taxes, Federal excise taxes, State and local taxes, license taxes, and real- and personal-property taxes. Have tax returns been reviewed and approved by the taxing authority?

Zoning ordinances, planning agencies, building codes. The buyer should check zoning ordinances and building codes to determine the existence of nonconforming land uses or violations of building codes. Comprehensive zoning plans may provide for steps to be taken toward elimination of nonconforming uses. This can be done by prohibiting alteration or enlarging of buildings or by requiring liquidation of nonconforming use within a prescribed period of time.

City, county, or metropolitan planning agencies and engineering departments should be consulted about the existence of master plans for future rezoning, redevelopment, and street or highway changes. Highway relocation, limited street or highway access, elimination of on-street parking, or changes in the composition of the immediate market area may be enough to destroy the business as a going concern. City annexation policies may be important to businesses located in the suburbs. The cost of planned improvements may affect the buyer's decision.

Court records. The buyer should find out from court records whether judgment liens exist against real estate involved in the buy-sell transaction and whether lawsuits are pending that may retroactively result

in the attachment of liens. This is of particular concern to the buyer who either assumes business liabilities or purchases the stock of a corporation. Not only litigation costs and liability must be considered but also the impact of the publicity on the goodwill of the business.

Even if a court record search is negative, future litigation may arise out of events of the past several years, such as motor-vehicle accidents, manufacture or sale of defective products, accidents on the premises involving customers or employees, breach of contract, violations of wage-and-hour laws, and so on. The best protection is to inquire of the seller and of employees who have been intimately concerned with the business.

### Part 3 The Buy-Sell Process

#### Chapter 6 - Determining the Value of a Business

THE MOST DIFFICULT STEP in buying or selling a small business is probably determining what the business is worth as a going concern. Many judgment decisions must be made. Yet before negotiations can continue successfully, a value must be established. The value must be acceptable to both buyer and seller, or further negotiation is fruitless. It must result from the logical and objective efforts of all the parties involved.

#### Valuation Methods

There are two basic methods of determining the value of a business. The first is based on expectations of future profits and return on investment. This method is preferable by far. It forces the buyer and seller to give at least minimum attention to such factors as trends in sales and profits, capitalized value of the business, and expectancy of return on investment.

The second method is based on the appraised value of the assets at the time of negotiation. It assumes that these assets will continue to be used in the business. This method gives little consideration to the future of the business. It determines asset values only as they relate to the present. It is the more commonly used, not because it is more reliable, but because it is easier. The projections needed to value the business on the basis of future profits are difficult to make.

#### Looking Ahead

Whichever method is to be used to value the business, the buyer should ask the seller to prepare a pro forma, or projected, statement of income and profit or loss for at least the next 12 months. For this, the seller will prepare a sales estimate for this period along with a matching estimate

of  
the cost of goods sold and operating expense.

The projected statement will reflect the net profit the seller believes possible. The buyer should then make his own estimate of sales, cost of goods sold, operating expenses, and net profit for the next year at least, and as far into the future as possible.

In preparing these statements, the buyer should start by analyzing the actual statements of profit and loss for at least 5 years back. He should be sure that the past and projected statements provided by the seller are correct and are consistent with the buyer's proposed future operation. He should also study general and local economic changes that will affect future business. This includes competition.

If the buyer is not qualified to prepare projected financial statements, he should consult an independent accountant. This will involve some expense, but the cost will be small compared to the loss he might incur if he invested in a small business with a doubtful future.

Financial statements and their analysis are discussed in part 4; market analysis in part 5.

#### Forecasting Sales

The most important projection to be determined in the projected income statement is the sales figure. After this number has been established, the cost, expense, and profit figures are easier to acquire. The data for projecting sales will come from past sales records of the business. The more accurate and systematic these records are, the more confidently they can be used in estimating future sales.

How long a forecast? A basic question is this: "Over how long a period of time is it necessary or possible to forecast sales?" Any forecast is uncertain, and the farther a forecast is projected into the future, the greater the uncertainty. While it may be possible to exercise at least reasonable control over the internal operation, the external economic and market factors make forecasting difficult because of lack of control.

Perhaps the best way to approach the length of the forecast is in terms of the expected return on investment. Suppose it is estimated that the business should bring a 20 percent return on initial investment. The investment, then should be returned in 5 years. At this point, the owner would just break even on his original investment. It seems logical to project sales and profits over a span of time comparable to that estimated for return on investment--in the above illustration, 5 years.

Any such forecast, however, should give careful consideration to expected

changes either in the economy or in the industry market that might affect the pattern of sales change. Mathematically, it is possible to forecast sales with some precision. Realistically, however, this precision is dulled because vital market and economic factors cannot be controlled.

Methods of forecasting sales. There are numerous methods by which sales forecasts can be made. Most of them take their lead from the past sales performance of the company. For establishing trends or averages, 5 years of sales history is better than 3, and 10 is better than 5.

Perhaps the simplest method is to assume that the percentage increase (or decrease) in sales will continue and that no market factors will influence sales performance more in the future than in the past. Suppose, for example, that the rate of yearly average increase for the past 5 years has been 4 percent, and that each year has shown about this rate of increase. Then it might be assumed that sales for the next year will be 4 percent greater than the current or most recent year.

But what about the year following? The year after that? Can it be assumed that these years will also increase at about 4-percent level? Each additional year into the future reduces the certainty of the predictions. If these negative influences limit the accuracy to such an extent, why try to forecast beyond the immediate future (1 year)? Because such a forecast forces the person making it to give at least a little attention to economic and market factors that might influence the future operation--that might, in fact, indicate that the purchase or sale of the business would not be wise.

With forecasts covering more than 1 or 2 years, a more detailed forecasting technique is needed. Such technique should be designed to weight out extreme variations in year-to-year sales and to give a trend or level of sales change that is more realistically oriented to probable future sales patterns.

No method of forecasting can set any value on external market conditions, because there is no guarantee that these conditions will carry over into the future with the same relative significance. Nevertheless, their possible influence should be considered.

Some simple methods of short-term forecasting are described in chapter 14.

#### Risk and Return on Investment

If a buyer wants to invest money in a business that is being sold, he

should be concerned about receiving a fair return on his investment. Many businesses can make a profit for a short time (1 to 5 years); not so many operate profitably over a longer period of time.

From the buyer's point of view, what is a fair rate of return from an investment in a small business? The rate of return is usually related to the risk factor--the higher the risk, the higher the return should be. United States Government bonds are the safest investment--the rate of return ranges from 5-1/2 to 6 percent. Blue-chip stocks and corporate bonds usually give the investor a return of 4 to 10 percent if both dividends or interest and increase in market value are considered. Speculative stocks may have a higher return, but they also have a higher risk factor.

The buyer of a small business should try to determine the risk factor of the new business, though this is difficult at best and in many cases impossible. In attempting to assess the risk factor, the buyer should project the profits of the business as far into the future as possible. He should ask himself how high the risk should be normally and look for conditions that would be likely to affect the sales and profit-making capability of the business.

In any event, he should consider carefully the minimum return on investment that he is willing to accept. This concept of risk is important in valuing the business by capitalization of future earnings.

#### Valuing the Business by Capitalizing Future Earnings

The price to be paid by the buyer should be based on the capitalized value of future earnings. Instead, however, in most small business buy-sell transactions, price is based on the purchase and sale of assets. Profits are made by utilizing assets, of course, but actually the assets purchased are only incidental to the future profits of the new business.

Capitalized value is the capital value that would bring the stated earnings at a specified rate of interest. The rate used is usually the current rate of return for investments involving a similar amount of risk. The capitalized value is found by dividing the annual profit by the specified rate of return expressed as a decimal.

Assume for the moment that the future profits of a business have been projected for the next 5 years and are estimated to average \$20,000 a year. (This is in addition to compensations for the services of the buyer and any members of his family.) What should be the sales price for the buy-sell transaction?

If this investment were as safe as U.S. Government bonds, the buyer should

be willing to pay \$333,000 ( $\$10,000 \div .06$ ). If the investment is considered as safe as an investment in an excellent corporate stock that earns 10 percent in dividends and price increases, the buyer should be willing to pay \$200,000 ( $\$10,000 \div .10$ ).

Very few small businesses, however, have as low a risk factor as these two investments. What rate, then, should be used in capitalizing the earnings of a small business? Usually, 20 to 25 percent is considered adequate. This means that the buyer should pay between \$80,000 and \$100,000 for this business. If it earns the projected \$20,000 a year, the buyer will recover his initial investment in 4 to 5 years. This time will be extended by Federal and State income taxes to be paid on the income, but this would also be the case for most alternative investments except nontaxable municipal securities.

In using a computation such as this, the importance of long-run profits should be kept in mind. Unless profits are possible over a long period of time (10 to 15 years), investment in a small business may be a poor decision. The trend of profits is also important. If all other factors are the same, a company whose profits are declining is worth less than one whose profits are increasing.

#### Valuing the Business on the Basis of Asset Appraisal

The majority of buy-sell transactions are based on a value established for the assets of the company. This approach is not recommended, but if it is to be used, the suggestions that follow should be considered.

A most important point is to find out early in the transaction just what assets are to be transferred. Usually, the seller has some personal items that he does not wish to sell. Prepaid insurance, some supplies and the like, in addition to cash, marketable securities, accounts receivable, and notes receivable usually are not sold. If the buyer does purchase the receivables, the seller may guarantee their collection, but such a guarantee should be established.

The assets most commonly purchased in a small business buy-sell transaction are merchandise inventory, sales and office supplies, fixtures and equipment, and goodwill.

Evaluating goodwill. One of the assets that must be considered in a buy-sell transaction is goodwill. Goodwill, in a general sense, arises from all the special advantages connected with a going concern--its good name, capable staff and personnel, high financial standing, reputation for superior products and customer services, and favorable location.

From the accounting point of view, goodwill is the ability of a business

to realize above-normal profits as a result of these factors. By above-normal profit is meant a higher rate of return on the investment than that ordinarily necessary to attract investors to that type of business.

The value of goodwill can be computed in either of the following ways:

1. Capitalization of average net earnings. As explained above, the amount to be paid for a business may be determined by capitalizing expected future earnings at a rate that represents the required return on investment. The difference between this amount and the appraised value of the physical assets may be considered the price of goodwill.

This method uses only earnings in computing the price to be paid for the business. For that part of the calculation, it ignores the appraised value of the assets.

2. Capitalization of average excess earnings. This method recognizes both earnings and asset contributions. It starts with the appraised value of the assets and computes what would be a fair return on that value. If the estimated future earnings are higher than this "fair return," the difference between the two figures--the "excess earnings"--is capitalized at a higher rate, and the amount thus obtained is considered the goodwill value. This figure is added to the appraised value of the assets to give a price for the business.

Payment of excess earnings is often stated in terms of "years of purchase" instead of in terms of capitalization at a certain interest rate. Capitalization of average earnings at 20 percent is the same as payment for 5 years' excess earnings.

As the above discussion shows, the determination of goodwill usually reflects the value of profits that will be realized by the buyer above the normal rate of return; that is, the excess profits. But most small businesses that are for sale do not have excess profits. They usually show nominal profits or none at all. Often the seller makes an offer that seems quite good, but the buyer must be able to eliminate the seller's emotions and reduce all facts to workable relationships.

If there are excess profits, goodwill is usually valued by capitalizing them at a fixed percentage established by bargaining between the seller and the buyer. The capitalization percentage needs to be high because profits higher than a normal return are difficult to maintain. Excess profits of



\$4,000 capitalized at 10 percent will give a goodwill value of \$40,000 (\$4,000 divided by .10). Capitalizing the same excess profits at 20 percent gives a goodwill value of \$20,000 (\$4,000 divided by .20).

Although goodwill valuation is the first asset valuation to be discussed here, it is normally the last to be computed. Since few small businesses being sold are producing excess profits, the problem of goodwill value is not a pressing one in most buy-sell transactions.

Merchandise inventory. In a service business, placing a value on the inventories is a minor problem; but in distributive and manufacturing businesses, the inventory is likely to be the largest single asset. A manufacturer, for example, has three inventories--raw material, work in process, and fixed goods--and each of them present different problems in valuation. The distributive company has only one inventory, called merchandise inventory.

The financial statements presented by the seller will probably reflect an inventory value different from the one assigned in a buy-sell transaction. Inventories are usually carried on the books either at cost or at the lower of cost or market. Market is defined as the current replacement cost to the seller.

In determining the value of inventories, the seller has to choose a method of arriving at cost. The most common costing methods are first-in-first-out (FIFO), last-in-first-out (LIFO), and average cost. These methods may give very different values and the buyer and seller must arrive at some value agreeable to both. The most common methods used in valuing inventories for buying and selling small businesses are cost of last purchase and current market price.

The quantity of the inventory is usually determined by a physical count. The physical inventory procedures should be decided before the count, and each inventory team should include one representative from the buyer and one from the seller. It is easy to omit items from the inventory count, and here the seller is usually in a more vulnerable position than the buyer. There is more danger of omitting item from the count than of double counting them.

It may be that some items of inventory are not to be sold. If so, these items should be segregated before the count begins. Another problem is determining what quality of items are to be included in the inventory. The buyer needs to be cautious when examining the inventories--in most buy-sell situations there is some inventory that is not salable.

This is one reason why the buyer should employ as his representatives on

the inventory teams individuals who are acquainted with that type of inventory. If the buyer and the seller disagree on the value of certain items, the seller will remove these items from the list of inventory for sale.

When the inventory is being priced, be very careful in matching price to quantity. Be sure that the units in which the quantity is recorded and the units priced are the same. The physical count should be recorded in duplicate so that buyer and seller can each make separate extensions after all prices have been listed. After independent extensions, the two inventories should be reconciled.

Manufacturer's inventory. When a manufacturing company is being exchanged, the raw materials inventory is taken and priced like the merchandise inventory of a distributive business. The work-in-process and finished-goods inventories may present a problem. Usually, there is no market price or cost of last purchase to relate to these inventories; consequently, the seller's cost is generally used for establishing prices.

If the seller has unused plant capacity or if his plant is inefficient, his costs may be inflated. Such a situation requires the help of an accountant with a good knowledge of cost accounting.

Store supplies and office supplies. These two items are usually quite small. They should present no problem, though some of them may have no value to the buyer if the name of the company is to be changed. After the usable supplies have been determined, a physical inventory should be taken and priced as in the case of the merchandise inventory.

Property assets and accumulated depreciation. The property-asset account normally reflects the cost of the assets reduced by a provision for depreciation. In many small business buy-sell transactions, no real property is exchanged, because the plant site is leased. The problem of establishing a value on real estate is not as acute, anyway, since the market value for real property does not fluctuate as widely as the market value for personal property.

It is customary to have an independent appraiser establish a value for real property. Appraisers' findings on real property are usually more acceptable to both parties than personal-property appraisals--the real property may have multiple uses, whereas personal property consists of single-purpose assets. The book value of real property will be close to the appraisal value unless the property has been held for a long period of time or unusual circumstances have caused sudden and drastic changes of real-property values.

Personal-property assets. The buyer may feel that he knows going values of the personal property and decide not to retain an independent appraiser. In

addition, many individuals believe that cost or book value is a good place to begin negotiations for personal property. However, because of the many methods of computing depreciation and also because of conflicting ideas about capitalizing cost, the cost or book value may not reflect a value that is agreeable to both parties.

It is difficult to assign a value to personal property equipment because these assets have little value if the company is liquidated. Therefore, a going concern value should be determined. The price to be paid for this equipment should be somewhere within the range of the cost of new equipment or the cost of comparable used equipment. For this reason, an independent appraiser can be useful, particularly if he is acquainted with the type of equipment being sought or sold.

The seller should realize that he may own assets that do not appear on the fixed-asset schedule. Many companies have a policy of not capitalizing any assets below some arbitrary amount (\$100 or \$200). A complete physical inventory should be taken.

If the assets are numerous and geographically dispersed, the seller may be asked to prepare a certified list of the assets giving description and location. The buyer can then test the list by verifying only selected assets at the time of the sale, but with plans to verify all of them within a certain period of time.

The value of personal-property assets is usually decided after considerable bargaining. It is better to assign values to individual assets rather than to make a lump-sum purchase of assets. In a lump-sum purchase, there is more chance of overlooking some asset values.

The buyer should try to determine the condition of the assets as well as repair and replacement requirements. If he doesn't establish the condition of the assets individually, repair and possible replacement costs may create an unexpectedly heavy drain on his working capital.

#### Federal Income Tax Consequences

Federal income tax consequences of the buy-sell transaction may be an important bargaining issue if the buyer and seller are aware of them. The seller should be concerned about the amount of tax he will have to pay on his gains from the sale. The buyer should be concerned about the tax basis he will acquire as a result of the transaction. These concerns almost inevitably lead the buyer and seller into conflict in valuing the business.

The income-tax laws are highly technical, and the possible variations in a buy-sell situation are infinite. Because of this, a discussion specific enough to be really helpful is impossible here. Both buyer and seller should study the applicable sections of the IRS Tax Guide for Small Business; and if an important decision in the buy-sell agreement is to be based on Federal income-tax consequences, the advice of an income-tax expert should be sought. The key to tax savings is tax planning--before the buy-sell contract is closed.

The seller should keep in mind that he must report any income-tax liability he incurs by selling a going business. Reinvesting the sales proceeds in another business will not enable him to avoid or postpone his income-tax liability.

#### A Valuation Example--the Regal Men's Store

This example will help to bring the factors discussed about into better focus. It is not intended to show what should be done but to give some idea of what might be done.

The buyer and the seller. Joe Critser is interested in buying a men's clothing store. He has had nearly 25 years' experience in the men's clothing trade--first as a salesman in retail stores and more recently as a sales representative for Sentinel, a major manufacturer of men's clothing. Now 45 years old, Critser is interested in having a store of his own.

In February 1979, Critser learns that the Regal Men's Store is for sale. James Rombaugh, owner and operator of the store, is now 67 and wants to retire, he says. He has no heirs, and no employee of the store is financially able to purchase the business. Rombaugh started the store in the late twenties and has been the sole owner during the 40 years Regal has been in operation.

The Store. Critser's early investigation convinces him that the store has the kind of possibilities he is looking for. Although it has been operated conservatively, it has a good reputation in the community and a creditable standing in the clothing trade. The store has never been particularly aggressive in advertising--the owner has relied on repeat patronage and word-of-mouth advertising.

Critser suspects that part of Rombaugh's desire to sell is due to competitive pressure from more aggressive stores in the community. Sales have continued to increase about in proportion to the market in general, but gross margin and profit have been reduced because of lower overall maintained markups and increasing costs of operation. Rombaugh owns the inventory, fixtures, equipment, and operating supplies and leases the building at 5 percent of net sales, with a minimum payment of \$1,000 a month. The current lease will expire in about 4 years.

The preliminary discussion. Rombaugh has been well impressed with

Critser  
and agrees to furnish necessary financial information. In their  
discussion  
to date, Rombaugh has stated that he feels the business is worth about  
\$100,000 for the purchase of inventory, fixtures, equipment, and  
goodwill.  
He will retain all accounts receivable, but he is willing to allow the  
new  
owner an 8 percent fee for outstanding accounts receivable collected  
after  
the transfer of ownership has been completed.

He also wants to keep a few assets for which he has a sentimental  
attachment, such as a massive rolltop desk purchased when the store was  
first opened. Rombaugh will assume responsibility for payment of  
liabilities outstanding at the time of sale.

Critser, on the other hand, feels that the business is worth somewhat  
less  
than \$100,000. It is obvious to him through casual inspection that some  
of  
the inventory is worth less than the original purchase price, and he  
doubts  
the value that Rombaugh would place on goodwill. He also notes that some  
of  
the display equipment is outmoded and needs replacement.

Before accepting or rejecting Rombaugh's price, Critser suggests that he  
be  
permitted to make his own evaluation of the business on the basis of  
past  
financial records and an appraisal of the assets. Rombaugh agrees.  
Following are the major elements of Critser's investigation and  
appraisal:

#### Past sales

1974--\$220,000  
1975-- 228,800  
1976-- 238,000  
1977-- 247,600  
1978-- 257,600

#### Forecast sales--1979

\$265,000--Critser's estimate of sales, which includes a somewhat smaller  
increase than the average of 3.2 percent per year between 1974 and 1978.

\$268,676--Rombaugh's estimate based on the average.

#### Five-year operating statement

	1974	1975	1976	1977	1978
Sales.....	\$220,000	\$228,800	\$238,000	\$247,600	\$257,600
Cost of goods sold..	139,980	146,432	159,260	160,940	167,440
	-----	-----	-----	-----	-----
Gross margin.....	80,020	82,368	78,740	86,660	90,160
Operating expenses	62,420	66,352	62,674	70,566	74,704
	-----	-----	-----	-----	-----
Profit.....	17,600	16,016	16,066	16,094	15,456

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Projected operating statement for 1979

	CRITZER (Buyer)	ROMBAUGH (Seller)
Sales.....	\$265,000	\$268,676
Cost of goods sold.....	172,250	174,640
	-----	-----
Gross margin.....	92,750	94,036
Operating expenses.....	76,850	75,766
	-----	-----
Profit.....	15,900	18,270
	-----	-----

Balance sheet of Regal Men's Store as of January 31, 1979

Assets

Cash on hand and in bank.....	\$20,000
Accounts receivable.....	\$32,000
Less estimated uncollectible.....	4,000
	-----
	28,000
Merchandise inventory.....	49,214
Sales and office supplies.....	1,920
Fixtures.....	20,000
Less estimated depreciation.....	5,600
	-----
	14,400
Equipment.....	19,000
Less estimated depreciation.....	8,600
	-----
	10,400
Miscellaneous assets.....	1,280
	-----
Total assets.....	\$125,214
	-----

Liabilities

Accounts payable.....	\$11,000
Payroll and sales tax payable.....	1,300
	-----
Total liabilities.....	\$12,300

Net worth

James Rombaugh, capital.....	112,914
Total liabilities and net worth.....	\$125,214
	-----

Salable assets

Inventory at current book value.....	\$49,214
Sales and office supplies.....	1,920
Fixtures, current depreciated value.....	14,400
Equipment, current depreciated value.....	10,400
	-----
Total salable assets.....	\$75,934
	-----

Valuation of inventory and appraisal of fixed assets

	CRITZER	ROMBAUGH
Inventory by physical count.....		\$47,514
90 percent valued at current prices.....	\$42,762	
5 percent valued at 75 percent of current prices	1,782	
5 percent valued at 50 percent of current prices	1,188	
	-----	-----
Inventory--appraised value.....	45,732	47,514
Usable office supplies.....	1,680	1,680
Fixtures--appraised value.....	13,600	13,600
Equipment--appraised value.....	9,400	9,400
	-----	-----
Total assets--appraised value.....	\$70,412	\$72,194
	-----	-----

How much to pay? If Critser feels that his return on investment should be capitalized over 5 years, his offering price, based on anticipated profits for the year ahead, would be \$79,500 (5 years = 20 percent per year; \$15,900 div. by .20 = \$79,500). If, on the other hand, the purchase was based on the appraised value of assets only, the purchase price would be \$70,412 plus any provision for goodwill.

Since both of these figures are well below the suggested price of \$100,000, negotiation will be necessary. Here are some questions that might arise:

1. In light of future sales and profit possibilities, are the assets worth more than the sale price?
2. Is the risk less than Critser anticipates? To pay \$100,000, he would have to reduce his risk level to between 6 and 7 years.
3. Is Rombaugh's price too high in the light of future sales and profit possibilities under new management?
4. How much confidence does Critser have in his ability to realize an acceptable return on his investment?
5. Is the actual value of this business as a going concern closer to \$68,000, \$80,000, or \$100,000?
6. How much is the goodwill of this business actually worth to Rombaugh?  
To Critser?
7. What kind of compromise might be satisfactory to both the buyer and the seller?

## Chapter 7 - Negotiating the Buy-Sell Contract

THE FINAL OBJECTIVE of the negotiation process is a written agreement covering the details of the proposed buy-sell transaction. Some of the details--price, terms of payment, price allocation, form of the transaction, liabilities, warranties--are matters over which the interests and motivations of the buyer and seller may be in sharp conflict.

The seller is interested in--  
 The best possible price--  
 Getting his money--  
 Favorable tax treatment of gains from the sale--  
 Severing liability ties, past and future--

Avoiding contract terms and conditions that he may not be able to carry out.

In contrast, the buyer is interested in--

A good title at the lowest possible price--

Favorable payment terms--

A favorable tax basis for resale and depreciation purposes--

Warranty protection against false statements of the seller, inaccurate financial data, and undisclosed or potential liabilities--

An indemnification agreement and security deposit.

The agreement reached by the parties, if they succeed in reaching one, will

be the result of bargaining. Depending on the relative bargaining position

of the buyer and seller, the buy-sell contract may reflect either compromise or capitulation.

## Price

The central bargaining issue in the buy-sell transaction is price. Price is

what is actually paid for a business. Value, as distinguished from price,

relates to what the business is worth. The decisions of the buyer and seller as to how much to pay or take for each dollar of potential profit are a basis for bargaining, but other factors affect the final price.

In the Regal Men's Store negotiations, Rombaugh was asking \$100,000 for his

business. Critser made his own evaluation of the business and offered \$66,000. After an extended period of negotiations, Critser and Rombaugh agreed on a purchase price of \$84,000.

What determined the asking and offering prices? How did they finally arrive

at the figure of \$84,000?

The process of price determination is sometimes described as horse trading.

This element is important, and undoubtedly both Rombaugh and Critser anticipated it in setting their asking and offering prices. But granting that tactics and compromise play a part in price determination, other explanations often account for the relative success or failure in the bargaining process.

Bargaining position. The price paid often reflects the bargaining position

of one of the parties. Is the seller's desire to sell stronger than the buyer's desire to buy, or vice versa? The reason behind the decision to buy

or sell is important. This would be true of a seller who must sell because

of age, health, or personal financial reasons. If the buyer knows that sale

of the business is urgent, the seller is less likely to get a reasonable price for his business, although the reasons bear no relation to the value

of the business or the ability of the buyer to pay cash.

The seller's willingness to finance part of the price, or perhaps all of



it, will also depend on the urgency of his need to sell. Sometimes a purchase price is agreed upon but later raised because the buyer is unable to get favorable tax treatment or in exchange for more favorable terms in other aspects of the contract.

The time factor. Another important factor affecting bargaining position is the time element--when to sell, when to buy. Economic conditions cannot be overlooked. The seller is more likely to gain his bargaining objectives when business conditions are good, particularly if his business is sharing the prosperity. During periods of recession--either general, local, or in a particular industry or activity--the pessimistic outlook of both buyers and sellers tends to depress prices.

The buyer. Still another important factor is, "Who is the buyer?" To a person experienced in business valuation, a business may be worth buying only at the liquidation value of the assets. To another buyer, the same business may be the answer to a long-held dream of owning his own business.

#### Liabilities

A buyer generally prefers to purchase assets rather than stock for tax reasons, but his preference becomes even stronger because of liability considerations. In the assets transaction, the legal continuity of the seller's business is broken. The seller's business liabilities are usually not carried over unless the buyer assumes them by agreement.

Buyers often find an advantage in assuming obligations of the seller under leases, mortgages, or installment-purchase contracts. The seller may be willing to make some financial sacrifice to the buyer in order to get out from under the payment burden--even though he remains liable for the obligation if the buyer defaults.

But these are known liabilities. It is the unknown that the buyer fears in the stock transaction. Many liabilities, both existing and potential, are unknown at the time of contracting merely because of inadequate investigation. And in any business, there are potential liabilities that neither an honest seller nor a diligent buyer can foresee at the time of the buy-sell transaction. An accident involving a company truck, the fall of a customer on the business premises, or the discharge of an employee may become the basis of a lawsuit and eventual liability, even though many months have passed since the event.

Even more elusive are liabilities that may arise from the manufacture or sale of defective products, patent or trademark infringements, or violations of statutes such as wage-and-hour laws, blue-sky laws, the Robinson-Patman Act, the Sherman Act, and so on. Tax deficiencies may

arise  
out of tax returns filed but unaudited at the time of the buy-sell  
transaction.

The price agreed upon in a stock transaction will, of course, take into consideration only known liabilities. The possibility of unknown liabilities need not, however, preclude the buyer from entering into a stock transaction. Such a course of action may, in fact, be necessary in order to retain the benefits of nonassignable contracts, leases, franchises, government licenses, stock registrations, corporate name, and so on.

The buyer of stock should take precautions against unknown liabilities. Ordinarily this would include an agreement on the part of the seller to indemnify the buyer against such liabilities and on some means for satisfying any claims against the seller. Holding part of the purchase price in escrow against such a contingency gives the buyer at least some security.

#### Contract Terms

A number of problems in the buy-sell transaction are brought into focus by the necessity of "writing up a contract." At this point, agreement has usually been reached on the major issue--price. Presumably, the buyer and seller have considered tax consequences, assumption of liabilities, and terms of payment in arriving at a price.

More is involved in drafting an adequate buy-sell contract, however, than mechanically reducing these oral agreements to written form. To protect the interests of both parties, the contract must cover possible problems that are often far from the minds of the buyer and seller at the time.

What if the buyer defaults on his installment payment of the purchase price? What if the seller's financial statements, which the buyer relied on, turn out to be inaccurate or false? What if the seller turns out to have liabilities that have not been taken into account in the price? What if some of the assets purchased turn out not to be owned by the seller or are subject to undisclosed liens? What if material changes in the business occur before the buy-sell transaction is closed? What if the seller opens a competing business of the same type in the immediate vicinity?

These questions reflect the uncertainty of the buyer's position. The seller knows what he is selling and what he is getting (with a possible exception in the case of seller financing). The buyer is getting an unknown quantity. Whether or not the buyer gets the protection he should have as part of the contract is a matter of bargaining.

## A Typical Buy-Sell Contract

Following is a typical buy-sell contract, with comments, covering the sale of the Regal Men's Store. The contract covers the sale of a proprietorship business, but the basic content would be the same in a corporate stock transaction.

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THIS AGREEMENT is made and entered into this 15th day of February, 1979, between James Rombaugh, hereinafter referred to as the Seller, and Joe Critser, hereinafter referred to as the Buyer.

WHEREAS the Seller is the owner of a men's clothing store using the trade name of "Regal Men's Store" in Central City, Illinois, and the Seller desires to sell to the Buyer his rights, title and interests including the goodwill therein, and the Buyer is willing to buy the same on the terms and conditions hereinafter provided, IT IS AGREED AS FOLLOWS:

(The above statements introduce the parties and the nature of the agreement. If the business is incorporated and a stock transaction contemplated, the stockholders will be identified as the sellers and stock as the item sold.)

1. Sale of business. The Seller shall sell and the Buyer shall buy, free from all liabilities and encumbrances except as hereinafter provided, the men's clothing store owned and conducted by the Seller under the trade name of "Regal Men's Store" at the premises known as 120 North Main Street, Central City, Illinois, including the goodwill as a going concern, the lease to such premises, stock in trade, furniture, fixtures, equipment and supplies, all of which are more specifically enumerated in Schedule A attached hereto.

(Paragraph 1 incorporates by reference an inventory not shown here of the assets being purchased. A specific enumeration of assets being purchased is important as a basis for recourse against the seller in the event of shortage or title defects.)

2. Purchase price. The purchase price for all the assets referred to in paragraph 1 shall be \$84,000 and allocable as follows:

Lease.....	0
Goodwill.....	\$ 6,000
Fixtures and equipment.....	30,000
Inventory.....	47,400
Supplies.....	600
	-----
	\$84,000
	-----

(The allocations in paragraph 2 represent compromise of the conflicting tax interests of the buyer and seller.)

3. Method of payment. The Buyer shall pay to the Seller the purchase price as stated above, in the following manner: (a) \$10,000 by certified or cashier's check upon execution of this agreement, the receipt of which is hereby acknowledged by the Seller, such proceeds to be held in escrow by Paul Jones, attorney for the Seller, as provided in paragraph 13; (b) \$40,000 by certified or cashier's check at the date of closing, subject to the adjustments provided for in paragraph 4; (c) the balance of \$34,000 by a promissory note payable in consecutive monthly installments of \$400 each beginning the first day of April, 1979, together with interest at 11-1/2% per annum. all contain a provision, satisfactory to the attorney for the Seller, for the acceleration of the balance remaining unpaid upon default in the payment of an installment for a period longer than thirty days. As security for the payment of any such note, the Buyer shall execute and deliver to the Seller at the closing a chattel mortgage upon the inventory, fixtures, and equipment described in paragraph 1, such mortgage to contain an after-acquired property clause and such other provisions as the attorney for the Seller may request.

(Paragraph 3 recognizes the financing seller's principal problem: security--or lack of it. The acuteness of the problem results from the fact that the buyer has usually exhausted all acceptable forms of security in getting the bank credit he needs.)

4. Adjustments. Adjustments shall be made at the time of closing for the following: inventory sold, insurance premiums, rent, deposits with utility companies, payroll and payroll taxes. The net amount of these adjustments shall be added or subtracted, as the case may be, from the amount due on the purchase price at the time of closing.

5. Buyer's assumption of contracts and liabilities. In the event this agreement to sell is in fact closed and the business is transferred by the Seller to the Buyer, the Buyer shall be bound by and does hereby assume the terms of the following contracts:

Lease of business premises dated January 1, 1976. The Buyer shall indemnify the Seller against any liability or expense arising out of any breach of such contracts occurring after the closing.

(Since a going business is being sold, the most realistic approach to the problem of outstanding liabilities may be for the buyer to assume all liabilities shown in an attached balance sheet and also liabilities that

arise in the ordinary course of business after contracting but before closing. Such an agreement provides recourse by the seller against the buyer if the buyer defaults, but does not discharge the liability of the seller to the third party.)

6. Seller's warranties. The Seller warrants and represents the following:

(a) He is the owner of and has good and marketable title to all the assets specifically enumerated in Schedule A, free from all debts and encumbrances.

(b) The financial statements which are attached hereto as Schedule B have been prepared in conformity with generally accepted accounting principles and present a true and correct statement of the financial condition of said business as of their respective dates.

(c) There are no business liabilities or obligations of any nature, whether absolute, accrued, contingent or otherwise, except as and to the extent reflected in the balance sheet of January 31, 1979.

(d) No litigation, governmental proceeding or investigation is pending, or to the knowledge of the Seller threatened or in prospect, against or relating to said business.

(e) The Seller has no knowledge of any developments or threatened developments of a nature that would be materially adverse to said business.

(f) The statements made and information given by the Seller to the Buyer concerning said business, and upon which the Buyer has relied in agreeing to purchase said business, are true and accurate and no material fact has been withheld from the Buyer.

(Paragraph 6 is intended to protect the buyer from the unknown--title defects, undisclosed liens, false or fraudulent information, undisclosed or potential liabilities. If the buyer is becoming liable for all business liabilities through assumption or purchase of stock, he will require more extensive warranties than these.)

7. Seller's obligation pending closing. The Seller covenants and agrees with the Buyer as follows:

(a) The Seller shall conduct the business up to the date of closing in a regular and normal manner and shall use its best efforts to keep available to the Buyer the services of its present employees and to preserve the goodwill of the Seller's suppliers, customers and others having business relations with it.

(b) The Seller shall keep and maintain an accurate record of all items

of  
inventory sold in the ordinary course of business from January 31, 1979  
up  
until the date of closing. Such record shall be the basis for adjustment  
of  
the purchase price as provided in paragraph 4.

(c) The Seller shall give the Buyer or his representative full access during normal business hours to the business premises, records and properties, and shall furnish the Buyer with such information concerning operation of the business as the Buyer may reasonably request.

(d) The Seller shall comply to the satisfaction of the Buyer's attorney with all the provisions of the statute of the State of Illinois commonly known as the "Bulk Sales Act."

(e) The Seller shall deliver to the Buyer's attorney for examination and approval prior to closing such bills of sale and instruments of assignment as in the opinion of the Buyer's attorney shall be necessary to vest in the Buyer good and marketable title to the business, assets and goodwill of the Seller.

8. Risk of loss. The Seller assumes all risk of destruction, loss or damage due to fire or other casualty up to the date of closing. If any destruction, loss or damage occurs and is such that the business of the Seller is interrupted, curtailed or otherwise materially affected, the Buyer shall have to right to terminate this agreement. In such event, the escrow agent shall return to the Buyer the purchase money held by him. If any destruction, loss or damage occurs which does not interrupt, curtail or otherwise materially affect the business, the purchase price shall be adjusted at the closing to reflect such destruction, loss or damage.

(Paragraphs 7 and 8 are concerned with the period between contracting and actual transfer of ownership. The provisions stated anticipate such risks as depletion of inventory, injury to goodwill, creditors' actions, and casualty loss. In 7 (c), the disruptive effect of a transfer of ownership is reduced by providing the buyer with the opportunity to become familiar with the details of the business operation before he assumes the responsibility of operation.)

9. Covenant not to compete. The Seller covenants to and with the Buyer, his successors and assigns, that for a period of five years from and after the closing he will not, directly or indirectly, either as principal, agent, manager, employee, owner, partner, stockholder, director or officer of a corporation, or otherwise, engage in any business similar to or in competition with the business hereby sold, within a fifty mile radius of Central City, Illinois.

(Paragraph 9 anticipates the possibility that the buyer would suffer a loss of the business goodwill he has purchased if the seller opened a similar business in competition with the buyer. Such provisions are enforceable if the restriction is reasonable. What is considered reasonable will depend on the circumstances of each case.)

10. Conditions precedent to closing. The Buyer's obligations at closing are subject to the fulfillment prior to or at closing of the following conditions:

(a) All of the Seller's representations and warranties contained in this agreement shall be true as of the time of closing.

(b) The Seller shall have complied with and performed all agreements and conditions required by this agreement to be performed or complied with prior to or at the closing.

(Paragraph 10 raises a problem that is inherent in the traditional contracting with a closing at some future date. In the period between, the buyer sometimes uncovers facts that would constitute a breach of warranty and grounds for canceling the contract. Because of this, transactions are finally closed, if at all, largely on the good faith of both parties. It is possible, if both parties work together toward the common goal, to sign the contract and close the transaction at the same time.)

11. Closing. The closing shall take place at the office of Paul Jones, 100 South Main Street, Central City, Illinois, on March 1, 1979, at 10:00 a.m. At the time of said closing, all keys to the business premises, the bills of sale and other instruments of transfer shall be delivered by the Seller to the Buyer and the money, note and mortgage required of the Buyer shall be delivered to the Seller. Upon completion of the said payment and transfer, the sale shall be effective and the Buyer shall take possession of the said business.

12. Indemnification by the seller. The Seller shall indemnify and hold the Buyer harmless against and will reimburse the Buyer on demand for any payment made by the Buyer after closing in respect to:

(a) Any liabilities and obligations of the Seller not expressly assumed by the Buyer.

(b) Any damage or deficiency resulting from misrepresentation, breach of warranty or nonfulfillment of the terms of this agreement.

13. Seller's security deposit. As security for the indemnities specified in paragraph 12, the Seller's attorney, Paul Jones, shall hold in escrow, for a period of one year from the date of closing, the sum of \$10,000 which has been paid by the Buyer upon execution of this agreement. Said escrow agent shall upon application of the Buyer apply all or any part of such to reimburse the Buyer as provided in paragraph 12, provided the Seller shall have been given not less than ten days' notice of such application and has not questioned its propriety.

14. Arbitration of disputes. All controversies arising under or in connection with, or relating to any alleged breach of this agreement, shall be submitted to a panel of three arbitrators. Such panel shall be composed of two members chosen by the Seller and Buyer respectively and one member chosen by the arbitrators previously selected. The findings of such arbitrators shall be conclusive and binding on the parties hereto. Such arbitrators shall also conclusively designate the party or parties to bear the expense of such determination and the amount to be borne by each.

(Paragraph 12 obligates the seller to indemnify the buyer to the full extent of any cost or damage sustained by the buyer as a result of the seller's breach of warranty or contractual obligations. Paragraph 13 backs up this agreement with a requirement that part of the purchase price be placed in escrow as security for the seller's performance. Paragraph 14 provides a means for resolving without litigation any buyer-seller disputes that may arise from the contract.)

IN WITNESS WHEREOF, the Buyer and Seller have signed this agreement.

JAMES ROMBAUGH, Seller  
JOE CRITSER, Buyer

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## Chapter 8 - Financing and Implementing the Transaction

THE BUYER AND SELLER have a number of important matters to attend to before the transaction can be closed. The seller will be thinking about instruments of transfer that must be delivered at the closing, about compliance with the bulk sale act, and possibly about making financial arrangements if the buyer can't raise the purchase price. The buyer's attention will be focused on financing arrangements, organizing his business-to-be, overseeing the seller's operation of the business in the meantime, and becoming familiar with the details of the business operation.

### Compliance With the Bulk Sale Act

Most States require the seller of a business to furnish a sworn list of



his  
creditors to the buyer and the buyer to give notice to the creditors of  
the  
pending sale. The purpose of such a "bulk sale" act is to make certain  
that  
the seller doesn't sell out his stock in trade and fixtures, pocket the  
proceeds, and disappear, leaving his creditors unpaid. Compliance with  
the  
statute gives creditors an opportunity to impound the proceeds of the  
sale  
if they think it necessary.

Noncompliance or inadequate compliance may result in attachment of the  
property after the sale by creditors of the seller and voiding of the  
buy-sell transaction. The buyer should not close the transaction until  
he  
has made sure that all statutory requirements have been met.

#### Financing the Buy-Sell Transaction

In general, the buyer has two options regarding the financing of the  
business. The first basic method of financing is person investment of  
the  
future owner or owners of the business. The buyer may pay cash for the  
business out of personal resources, establish a partnership, or sell  
stock.  
These forms of financing are commonly referred to as the use of equity  
or  
investment capital.

The other basic form of financing is through borrowing or the  
establishment  
of credit. This method of financing may or may not require the payment  
of  
interest, but it does require the borrower to repay the principal,  
usually  
over a stipulated period of time or on a specific date. This method of  
financing is commonly referred to as the use of debt capital. Often the  
purchase is made through a combination of equity and debt capital.

Equity capital. In the simplest form of purchase, the buyer pays the  
full  
purchase price in cash. The buyer's investment in the business, at least  
initially, is full and complete. Whether the funds come from one person  
or  
more than one, the financial nature of the transaction does not change.

The sources of equity capital are many and varied. Generally, they are  
in  
the form of bank savings. Or cash may be obtained from liquidating  
certain  
assets the buyer may own, such as surrendering life insurance policies  
for  
cash value or selling real estate, stocks and bonds, or other assets.

Before disposing of assets, however, the buyer should ask himself this  
question: "Do I want to buy the business more than I want to keep these  
assets, considering both present and future values?" For instance, if  
the  
buyer cases \$16,000 worth of government bonds, there may be a  
possibility

of his making a higher profit, but the risk of losing his investment entirely will be greater. He should be as certain as possible that the expected return is worth the risk.

An equally important question is how much the buyer should invest in the business. In general, the more he invests himself, the better chance he will have of borrowing at least part of the purchase price.

A buyer may not have the capital, however, nor perhaps the inclination, to purchase the business outright with his own personal funds. How far he goes in this respect depends on his own cash resources, his confidence in the business, and his ability to borrow money or establish credit with others.

Debt capital. In most cases, the buyer of a small business will have to borrow money or establish credit to purchase the business. Several factors will affect the use of debt capital for this purpose: the source of capital, the amount that can be borrowed, and the length of time for which the capital can be borrowed.

Commercial lending institutions are the sources to which the buyer will probably turn first. The availability of financing through these sources depends on the security that can be pledged to the loan, the profit potential of the business, the prospect of repayment of principal and interest, and the general availability of credit.

One of the major difficulties facing the buyer at this point concerns the collateral that can be pledged as security. The physical assets of the business--particularly fixtures, equipment, and land and buildings--will not be available for security unless they are free of other financial obligations. The buyer may be forced to look to his own personal assets, such as cash value of life insurance, stocks and bonds, mortgages on real property, and so on.

Less formal sources of debt capital may be open to the buyer, such as loans from friends, relatives, business associates, and the like. Many small businesses have been financed through such means.

The seller as lender. A common source of debt capital is that supplied by the seller when he lets the buyer pay for the business over time. Why should the seller finance the buyer? Probably because the desire to sell is strong enough so that the seller is willing to assume part of the risk.

As in financing from other sources, the seller usually demands that the buyer pay interest on the amount being financed and repay the principal and interest at stipulated periods. The seller usually establishes his security on the more certain assets, such as fixtures and equipment. However, he may also assume the inventory as acceptable security without placing it in a bonded warehouse.

The seller's philosophy toward financing the buyer seems to be that if the buyer should fail, the seller can take back the business. The major problem in this form of financing is that it is harder for the buyer to get additional financing from other sources when the seller has first claim on the assets of the business.

How much to borrow. As the first step toward financing the purchase of a business, the buyer has to find answers to two questions:

"How much do I need to borrow?"

"How much can I afford to borrow?"

The answer to the first question depends partly on how much money the buyer has and how much he is willing to invest in the business himself. The less equity capital he has, the more debt capital he needs.

How much he can afford to borrow depends on his ability to keep up principal and interest payments. If a buyer borrows from a number of sources, he may find himself committed to a repayment schedule that the profits from the business will not support. His borrowing plans should be related to the projected income statement prepared during his study of the business under consideration.

Operating capital. In addition to funds for purchasing the business, the buyer must have enough working capital to cover the cost of operation until the business itself produces enough cash. In other words, the buyer must think in terms of cash requirements and cash flow for weeks and months ahead. A common mistake in buying a business is failure to provide adequate working capital.

If sales and business costs after purchase of the business are expected to follow the pattern of the immediate past, the need for short term working capital should not be hard to estimate.

#### Closing the Sale of the Regal Men's Store

In the sale and purchase of the Regal Men's Store, discussed in chapters 6 and 7, Rombaugh and Critser compromised on a price of \$84,000. The problem then facing the two men was how the transaction was to be financed. What were the various possibilities?

\* Critser could pay the entire \$84,000 out of cash or negotiable assets converted to cash, providing he had that amount and was willing to invest the entire sum. Critser did not have that much cash and was not likely to be able to raise it.

\* Critser could pay up to the limit of his own resources and borrow the rest. Critser had been turned down by three banks--they did not consider him an acceptable credit risk. This had nothing to do with Critser's personal credit rating. It was due to concern about whether he could meet the resulting financial obligations out of profits and about the nature of the assets as a basis for security.

\* Rombaugh could allow Critser to assume ownership of the business and pay the amount due over several years. Whether Rombaugh would agree to such an arrangement would depend on how badly he wanted to sell to Critser, how long it would take Critser to pay off the amount due, and whether there were any other potential buyers who might be able to finance the purchase differently.

\* Critser might be able to get others to invest with him, forming a partnership and spreading the capital requirements among two or more owners. This arrangement would reduce Critser's ownership in the business, since the legal form would be changed from a single proprietorship to a partnership. Critser did not want this. He would rather not purchase the business than take on a partner.

\* Critser might form a corporation and sell stock to raise capital. This would not ordinarily be feasible for such a small business.

#### Plan for Financing the Purchase

Critser's personal investment.....	\$40,000	
Financed by Rombaugh.....	34,000	
First-year payment:		
Principal at \$400 a month.....	\$4,800	
Interest at 11.5 percent.....	3,910	
	-----	\$8,710
Financed by Hirschberger.....	10,000	
First-year payment:		
Principal.....	\$3,333	
Interest at 10 percent.....	1,000	
	-----	4,333
First-year principal and interest payments.....	\$13,043	
	-----	-----
Total price.....		\$84,000
		-----

#### Regal Men's Store Balance Sheet--February 15, 1979

Assets	
Cash on hand and in bank.....	\$4,000
Merchandise inventory.....	47,400
Fixtures and equipment.....	30,000
Sales and office supplies.....	600
Goodwill.....	6,000
	-----
Total assets.....	88,000

	-----
	Liabilities
Notes payable.....	44,000
	Net Worth
Joe Critser, capital.....	44,000
	-----
Total liabilities and new worth.....	88,000
	-----

The cost of complying with stock registration requirements, the possibility of losing control of management, the lack of a market for such securities, and the greater relative cost of equity capital over debt capital would all work against it.

The decision. In effect, the only course of financing open to Critser was to raise as much as possible, borrow from personal sources, and enlist Rombaugh's willingness to finance the balance. Rombaugh agreed to finance the business to the extent of \$34,000, accepting a chattel mortgage on inventory, fixtures, and equipment.

This is somewhat unusual, particularly as to the inventory. There was no requirement that the inventory be placed in a bonded warehouse or otherwise controlled. Rombaugh based his decision on his own knowledge of average inventory value and on his willingness to accept the risk that Critser would not tie up further purchases in accounts payable.

With Rombaugh financing \$34,000, Critser now had to raise the remaining \$50,000. He got \$10,000 in the form of a loan from his former boss Dan Hirschberger. As security, Critser pledged some stock he owned. He agreed to repay the loan semiannually over a 3-year period at 10 percent interest.

The cash value of Critser's life insurance and his Series E Bonds brought \$16,000 and \$14,000 respectively. Another \$10,000 came from his wife--savings she had accumulated working as a secretary. A \$4,000 inheritance Critser had received several years before was to be retained for use as working capital, and this would be supplemented by the 10 percent fee he would receive from Rombaugh for collecting the accounts receivable outstanding at the time of purchase. This fee would amount to about \$1,375 if all the accounts were collected.

How it all stacks up. With these arrangements, Critser's financial position with regard to the purchase of the business was as shown in the chart above. Almost everything he owned was either invested in or pledged to the business. One question remained: Would the business bring in enough cash to cover operating costs and other financial obligations?

The outcome--what will it be? Should he have bought the business? Can he

meet his financial obligations? Will he be able to maintain enough working capital to replace inventory, pay his operating costs, and repay his debt capital with interest as the payments fall due?

Only time will tell how good a manager Critser is. Many businesses have been bought and operated successfully on a more precarious start than this. Perhaps he will prove capable of meeting the challenge. Perhaps not.

If he should fail what would he lose? Practically everything--his full investment of \$40,000 plus whatever else is necessary beyond the sale value of the assets to satisfy his creditors. Whether he succeeds or fails will depend on how well he can administer the financial program of the store, how well he can merchandise, how well he can keep his costs in line, how near his sales come to his earlier estimates.

#### Part 4 Using Financial Statements in the Buy-Sell Transaction

##### Chapter 9 - Income Statements and Balance Sheets

THE DISCUSSING OF FINANCIAL STATEMENTS in this chapter assumes that the statements are prepared in accordance with generally accepted accounting principles. There is a brief statement of some of the more important of these principles:

- \* A business should have financial reports prepared at the end of each calendar or fiscal year, with interim reports during the year. Use of the "natural" business year as the formal accounting period has been increasing. The natural year is the 12-month period ending at the lowest point of business activity for the period.

- \* Since many business transactions will be incomplete at the end of any accounting period, some estimates will be necessary. Such estimates are an acceptable part of financial reports as long as they are made according to procedures that have proved reliable in the past.

- \* Each business is considered a separate accounting unit, with the affairs of the business kept entirely separate from the owner's personal affairs. All records and reports should be prepared on this basis.

- \* Financial statements are prepared on the assumption that the business unit will continue to function in its usual manner.

- \* For some accounting objectives, two or more methods are possible. For example, there are several methods of computing depreciation and also of valuing inventory. They are all valid, but once a method has been selected for use in the records of a business, it should be used consistently.

- \* Accounting must be practical. Strict adherence to a principle is not required when the increase in accuracy is too small to justify the increased cost of compliance. A uniform policy should be adopted to

guide  
such exceptions, however.

\* All assets and services required by a business should be recorded on the date they are acquired at their cost to the business. This cost includes costs incurred to procure the asset or service and to place it in position or condition for business use. Donated assets are recorded at their cash equivalent value as of the date of donation.

\* A major objective of accounting is to determine income by matching costs against revenue. The net income of a business is the increase in that company's net assets brought about through profitable exchanges of product and services or through sale of assets other than stock in trade.

#### What Is Being Sold

In the usual buy-sell transaction relating to a "going concern," what is being bought or sold is primarily a future stream of income. Not the assets or property of the business, but the income these assets will generate in the future. But future income is impossible to compute and hard to estimate. Therefore, the buyer and seller often ignore this unknown quantity. In trying to set the price, they concern themselves with known values relating principally to the replacement cost of the tangible assets being sold. This is a mistake.

#### Use of Past Financial Data in Valuing Future Income

It has been said that history repeats itself, but this is not always true of the financial history of a business. First of all, the question arises, "Why is the present owner willing to sell the business?" One reason may be that he foresees adverse change of one sort or another.

Keep in mind, too, in trying to predict the future from present results, that there will be a change of ownership. Will the new owner be able to produce the results the former owner did? Is he trained and experienced in management as well as in the mechanical or technical skills needed?

There are many reasons why past operating results may not be a good indication of future income. Still, they are at least concrete facts. They should be examined carefully for whatever insight they may provide into the future.

#### What Data To Expect

Most businesses will have at least two basic financial statements prepared at the end of the annual accounting period--a statement of income and a balance sheet. There may also be other statements containing important

information. These might include a reconciliation of retained earnings in the business, a statement of source and application of funds, and listings of such items as inventories, accounts receivable, and accounts payable. However, the statement of income and the balance sheet are the basic financial statements. Any business can reasonably be expected to have these two available.

If they have not been prepared, it may be necessary to construct approximate statements--particularly statements of income--based on the best information available. If they are available but were not prepared in accordance with generally accepted accounting principles, they will probably have to be adjusted.

It is essential to understand what the accountant means by the amounts shown on the financial statements. The items discussed below should appear on most such statements. The listing is not all-inclusive, but most major items are discussed.

#### The Balance Sheet

A balance sheet lists in one section all the assets of the business as of the last day of the accounting period and in another section all claims against these assets. Claims against assets include creditors' claims, or liabilities, and owner's claims, or investment (also called equity or net worth).

#### Assets

Cash. This asset includes cash balances in the bank, cash on hand (including change and petty-cash funds), funds held in trust, sinking funds, and funds in time deposits. Not all the cash will necessarily be available for payment of liabilities. Change funds, for example, must be retained in order to have the change necessary for doing business.

Marketable securities. Included in this classification are such items as United States Treasury bills and perhaps stocks and bonds. These assets are most commonly shown on the balance sheet at their cost to the business or at their market value.

Accounts receivable. An entry that is identified merely as "accounts receivable" or has the designation "trade" after it refers to accounts receivable from customers only. Notes or accounts receivable from officers, employees, or owners of the business are considered nontrade receivables and should be entered as a separate item.

Allowance for bad debts. This is an account that is deducted from the accounts receivable account to give a more accurate valuation to accounts receivable. Suppose the business has accounts receivable of \$100,000 and



experience indicates that 5 percent of this amount will be uncollectible. There is no way of knowing which specific accounts will not be collected, but it can be estimated that \$5,000 will eventually be uncollectible. To reflect this fact on the balance sheet, accounts receivable are shown at \$100,000. An allowance for bad debts of \$5,000 is also entered and deducted from the accounts receivable, leaving a net of \$95,000 as the estimated collectible accounts receivable.

Notes receivable. This account includes the face amount of all notes that have been given the company and that are still unmatured, even those that have been discounted at the bank.

Notes receivable discounted. This is a contingent (possible) liability account. If a note receivable has been discounted at the bank, the company has had to guarantee its payment. Thus, until the maker of the note pays the bank, the company has a possible note payable.

The amount of the notes receivable discounted is entered on the balance sheet under the notes receivable entry and subtracted from the notes receivable total. An alternative method is not to include it in the notes receivable total but to show it in a footnote.

Notes and accounts receivable from officers, employees, and owners. This amount will include amounts due the business from persons connected with the business in some way. Advances for employees' uniforms or cash loans may have been made, for instance.

Inventories. Inventories are the major asset in some kinds of businesses, particularly those in the merchandising field. Methods of valuing inventories are similar in manufacturing and nonmanufacturing companies, but the mechanics of computing the values differ. Therefore, valuation methods are discussed separately.

Purchased inventories. If the business buys merchandise or raw materials which it merely holds for a time and then sells with little or no alteration, the inventory is valued either at cost or at the replacement price if the latter is below cost. If the replacement price is higher than cost, the inventory should be valued at cost.

It is generally agreed that if the cost of transportation of the goods to the company is a significant item, the inventory account should include this cost. In fact, all costs involved in preparing the goods for sale could justifiably be included. Such costs might include, for example, certain costs of dividing and repackaging.

Once it has been decided what costs are to be included in the inventory account, there are at least four major methods of valuing the inventory:

1. If a business specifically identifies items in costing inventory, it must be able to tell what was paid for each item. This method is practical

for items with a high unit price, such as new automobiles or major appliances. As the unit price falls, however, and the number of items in the inventory increases, this method of valuation becomes less practical.

2. First in, first out, or FIFO, is another method of costing inventory. It assumes that the first units purchased are the first units sold, that those still in inventory are the last ones purchased. Thus, the inventory is valued at the cost price of the last items purchased by the business.

3. Last in, first out, or LIFO, assumes the opposite--that the last goods purchased are the first ones sold. The inventory is thus valued at the cost of the first inventory items to be available for selling. The inventory valuation under LIFO does not necessarily correspond very closely to current replacement costs.

4. The average cost method is merely an average of FIFO and LIFO. It aims to find a middle ground between the two extremes.

If prices of the goods purchased have been rising, the FIFO valuation will come closest to current market prices--the use of LIFO will tend to value the inventory at less than current market prices. The choice of inventory valuation will affect the reported cost of goods sold on the income statement and also the reported net income.

Manufactured inventories. If the company manufactures goods from purchased raw materials, the inventory costing or valuation method is somewhat different. Any raw materials on hand are valued by one of the methods described for purchased inventories. Valuation of work in process and finished goods inventories involves three elements:

1. Cost of the raw materials used. This can be computed very exactly.
2. Cost of the direct labor used in converting the raw material into its present state of completion. This, too, normally lends itself to fairly exact measurement.
3. Factory overhead, or indirect cost. These are the costs of such items as insurance, indirect materials, indirect labor, taxes, and so on. They must be allocated to the units produced on some reasonable basis.

Total indirect costs do not vary with the amount of goods produced, or at least not proportionately. This means that if the plant is not operated at its maximum capacity, the indirect costs per unit of production will be more than would be the case if the plant were operated at a higher level of production. Therefore, idle time or idle capacity in a plant may cause the

inventory value of manufactured goods to be unrealistically high.

Prepaid and deferred items. Prepaid expenses are prepayments for goods or services that will be consumed in the near future--prepaid rent, prepaid insurance premiums, office supplies, and so on. Deferred charges are prepayments that will benefit the company over a period of years, such as the cost of moving to a new location.

Property, plant, and equipment. This classification includes all the fixed assets of the business--land, buildings, equipment, and other tangible items that will last more than a year and will be used in the normal operation of the business. These items, under generally accepted accounting principles, should be recorded at their original cost to the business.

Occasionally, a buyer may find that the seller has raised the valuation of these assets by appraisal writeups. If this has occurred, the buyer must satisfy himself that the value of the assets has in fact increased by the amount of the appraisal writeup.

Accumulated depreciation and depletion. This account shows the amount of depreciation, or loss of usefulness, that has been charged against the property, plant, and equipment while they have been held by the business.

On the balance sheet, the amount in each depreciation account is deducted from the corresponding property, plant or equipment total. This leaves the net book value, or unrecovered original cost.

A depreciation account is merely a technique for distributing the cost of a fixed asset over its estimated useful life. It is quite possible for assets that are fully depreciated on the books to be still serviceable, and for assets not fully depreciated to be no longer serviceable.

There are a number of methods of figuring depreciation. Four of the most common are the straight-line method, the declining-balance method, the sum-of-the-years-digits method, and the units-of-production method.

The first three methods record depreciation on the basis of time. The straightline method records the depreciation uniformly over the years of the asset's estimated service life. It is by far the most commonly used because of its simplicity. The declining-balance and sum-of-the-years-digits methods record larger amounts of depreciation in the early years. With these two methods, increased maintenance expenses in later years are offset somewhat by the reduced charges for depreciation. Also, there are some income-tax advantages.

The units-of-production method is based on the estimated productive capacity of the asset rather than time. It is useful where the amount of usage varies considerably from time to time.

All four methods will record the same total depreciation over the life

of  
the asset. There may be a substantial difference in the amount recorded  
in  
any one year, however.

Intangibles. This classification includes such items as patents,  
trademarks, and goodwill. The value recorded is their cost to the  
business.

The amount entered for a patent, for example, will be either the cost of  
purchasing the patent right or the cost of developing the patent.

Goodwill

will not appear on the balance sheet unless the business purchased the  
goodwill and has decided to leave it on the books.

#### Liabilities and Owner's Equity

Accounts payable to trade. The amounts recorded in this account are the  
amounts owed to regular trade creditors (except notes payable) for  
merchandise and other items needed in operating the business.

Notes payable. This item includes all amounts owed by the business for  
which a formal note payable has been given if the note is due in 12  
months

or less from the balance-sheet date.

Accrued taxes payable. This account will show the amounts owed to  
various

taxing authorities. It will include taxes that have been collected or  
withheld but not yet forwarded to the authorities--for example, sales  
taxes, income withholding taxes, and Federal Insurance Contribution Act  
(Social Security) taxes. The account may also include accruals for items  
such as property taxes, franchise taxes, and use taxes the business owes  
but has not yet been paid. The amount shown on the balance sheet should  
be

the amount that the business is legally liable for.

Wages and salaries payable. This account will show all wages and  
salaries

of employees earned but not paid as of the balance-sheet date. Any  
unclaimed wages due former employees will also be included in this  
account.

There are some rather rigid legal requirements about the handling of  
taxes

collected from the employees as opposed to ordinary business  
liabilities.

Income taxes payable. This account may not appear on the balance sheet  
if

the business is operated as a single proprietorship or partnership. It  
should be shown for a corporation. The amount may be only an estimate  
but

will usually be quite accurate.

Unearned income. Some types of businesses receive fairly large amounts  
of

prepaid or unearned income. The publisher of a newspaper or periodical,  
for

instance, is paid for subscriptions before the publications are  
delivered.

If a business rents property to others, the rent will be received in

advance. The amount of such income that has been received but not earned at the balance-sheet date is recorded here. There may or may not be a legal requirement that the unearned amounts be returned if the company fails to deliver the services or products.

Long-term liabilities. For a liability to be considered long term, its maturity date should be more than 12 months from the balance-sheet date. If unearned income is prepayment for services covering more than a year from the balance sheet date, a proportionate amount of it should be included here instead of under unearned income.

Owner's equity. Two elements enter into owner's equity: the initial investment of the owner or owners, and retained profit or loss. The computation of owner's equity is based on the recorded value of the assets and liabilities of the business--it is merely the difference between the total assets and the total liabilities. If the assets are recorded at less than their true value, the owner's equity will be understated. If the assets are recorded at an inflated value, the owner's equity will be overstated.

If the business is a corporation, the original investments of the owners will be kept in separate contributed capital accounts. The net results of operations will be summarized in one or more retained earnings accounts. All these accounts together make up the owners' investment in the business.

If the business is a single proprietorship or a partnership, each owner will have a capital account that summarizes his investments, his share of net income or losses, and withdrawals he has made.

#### Income Statement

The income statement is a summary of the income and expenses of the business for the period covered. It shows the net result of operations--profit or loss--for the period.

Revenue. All income of the business from whatever source should be included. However, income from operations is usually shown separately from other income such as interest or rent. Charge sales are included in sales income at the time the sale is made, regardless of when the cash is received in payment.

Cost of goods sold. The cost of goods sold equals the cost of goods purchased during the accounting period (including transportation) plus the beginning inventory and minus the ending inventory.

Gross margin. This is the difference between income from operations and cost of goods sold. The gross margin must cover operating expenses, taxes,

and profit.

Operating expenses. Types of operating expenses vary with the type of business, but all businesses have some--building expenses, utilities, wages, supplies, some kinds of taxes, insurance, and so on. These expenses for the accounting period are subtracted from the gross margin to give the net income (before income taxes).

#### Auditing of Financial Statements

If the buyer in a buy-sell transaction asks an accountant to audit the financial statements of the seller, the accountant will want to make a "purchase investigation." A purchase investigation is a normal audit with intensified examination of certain items critical in a buy-sell situation. The accountant may go to greater lengths, for example, to make sure that the physical plant and all equipment are present and in serviceable condition.

There is no required form an accountant must use in certifying financial statements, but the following standard certificate has evolved:

We have examined the balance sheet of the \_\_\_\_\_ Company as of December 31, \_\_\_\_ and the related statement of income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the accompanying balance sheet and statement of income and surplus present fairly the financial position of the

\_\_\_\_\_  
Company at December 31, \_\_\_\_ and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

If the accountant cannot use this certificate as it is, he will do one of two things. He will either qualify his certification, or state that he is unable to render an opinion regarding the financial statements. This might happen if he were unable to comply with generally accepted auditing standards, or if the accounting records were not prepared in conformity with generally accepted accounting principles.

#### What If There Are No Financial Statements?

The buyer may find, in a very small business, that the owner has never prepared financial statements. Furthermore, there may be no records available from which to prepare them.

There is no realistic way to determine the results of past operations without financial statements. However, there are a few records that even

the smallest, most poorly run business must have. The buyer should try to construct from these records as realistic as possible an income statement and balance sheet. Here are some of these records:

\* The seller will have had to file Federal income-tax returns that include an income statement for the business. At least part of this income statement will probably have been prepared on a cash basis and will not reflect the results of operations as accurately as a statement prepared on an accrual basis would. However, it is a fairly safe bet that the seller has not overstated the receipts from the business on his income-tax return. He may have tended to overstate expenses, though, particularly by including some personal expenses as expenses of the business.

\* If the seller has a retail store and make sales in a State that has a sales tax, he has had to file sales-tax returns. The buyer should examine these returns to determine the amount of gross sales during the period covered.

\* If the business has employees, the seller will have made deductions from the employees' pay for income taxes and Social Security. The returns prepared for the Director of Internal Revenue covering these deductions will show the wages paid.

\* Almost any business will have certain types of expenses such as property taxes and insurance. The buyer can call the County Treasurer and the insurance agent to learn the amounts of these expenses.

\* A fairly good evaluation of the financial position of the business can be made by talking to the seller's principal suppliers and to his bank to determine the amounts owed by the seller and the credit standing of the business.

## Chapter 10 - Adjustments to the Financial Statements

IT IS IMPORTANT TO KNOW what the accountant who audits and certifies the financial statements is saying. He is not saying that there is no possibility of error in the financial statements. He is saying that the financial statements substantially reflect the correct financial position of the business. His certificate on a set of financial statements is the buyer's assurance that he can rely on the statements without further investigation to determine that they were prepared correctly. Some adjustments may be needed, however, to make the statements more useful in valuing the business.

### Assets

Cash. No revaluation of this item is likely to be needed unless the business has deposits in foreign currencies. In that case, a revaluation may be necessary for possible loss in conversion of foreign currencies

into  
United States dollars.

The buyer should also be aware that some of the cash may not be available to pay current debt and operating expenses. For example, some cash may have to be kept in change and petty-cash funds.

Marketable securities. Marketable securities are often recorded on the balance sheet at their cost, which may be below current market value. These assets should be stated at market value. Short-term Treasury notes or bonds that will mature shortly after the sale of the business could be valued at their maturity value. There would probably be little difference between this and their market value.

Accounts receivable and allowance for bad debts. These two accounts must be examined together. The buyer should make certain that the net receivables on the balance sheet are really collectible.

The most common way to do this is to prepare an aging of the accounts receivable to show how old each account is. Thus, if the business normally sells merchandise on 30 days' credit and many of their accounts receivable are more than 90 days old, it is doubtful that these accounts can be collected.

If there are large accounts due from individual customers, the buyer might be wise to correspond directly with the customers to verify the amounts receivable. At the very least, invoices and signed shipping receipts should be studied to make sure that the customers have received the merchandise and have not yet paid for it.

The objective of the valuation of the accounts receivable is to state them at the true net collectible amount.

Notes receivable and notes receivable discounted. These two accounts must also be examined together. Unless the business normally receives a note at the time of a sale, a note from a customer usually means that the customer was unable to pay his account when it was due. The customer has, therefore, already shown some financial weakness, and the number of notes that will prove uncollectible may be fairly high. The buyer should try to find out whether notes still held by the business are likely to be paid at maturity.

The objective is to state the notes at their estimated collectible value and the amounts the business is likely to have to pay on default of discounted notes.



Accounts receivable and notes receivable from officers, employees, and owners. Since these items represent amounts due from people who have an inside interest in the business, there may be a serious question as to whether they will be collectible. Care should be taken to see that they are stated at their realizable value to the business.

Inventories. If inventories are stated on the balance sheet at cost, this cost may be what was paid recently, or it may be only indirectly related to the present value of the inventory. If the buyer does not feel competent to appraise the condition of the inventory, he should obtain the services of someone who is. He should not rely on the valuation of the seller.

One way to verify or correct the inventory value in a small business is to get the company's supplier to value the inventory. This is especially suitable if one principal vendor supplies the business. Since he or his representative will have to visit the business regularly in the future, it will be to his advantage to make sure that the valuation is fair. Also, the suppliers know the value of their own goods. The valuation should allow for all trade discounts and damaged or obsolete stock should be rejected.

Prepaid and deferred items. These items will be valued at their unrecovered cost to the business. The buyer should make sure that he can use any prepaid items he buys. Suppose, for example, that the business has recently purchased substantial quantities of stationery and other printed office supplies bearing the name of the present owner. Unless the name of the business is to be carried over, any amount that appears in the prepaid items for these supplies should be removed.

The buyer should also make sure that any prepaid insurance premiums and the insurance policies to which they apply can be transferred to him without loss of coverage or requirement for additional premium payments. He should be aware that premiums on workmen's compensation insurance are subject to later adjustment. Any insurance the buyer doesn't want, of course, will be canceled, and the balance sheet should be adjusted to show this.

Property, plant, and equipment. A professional appraisal of buildings, plant, and equipment may be useful, but many intangibles enter into a selling price. The fact that the building is appraised at \$100,000 doesn't necessarily mean that the building is worth that much to the buyer. On the other hand, it may be worth more.

Another common way to value an asset of this kind is to establish a replacement value, allow depreciation for the length of time the asset

has  
been held, and use the remainder as the value of the asset. The main  
problem in using replacement value is that fixed assets are seldom  
replaced  
with identical assets. A 20-year-old building is not likely to be  
replaced  
with a building just like it. Building methods change and needs of the  
business change. Therefore, it is unrealistic to think in terms of  
replacement cost for an asset that would never be replaced.

The seller of the business may want to value these fixed assets on the  
basis of values established by the insurance company in determining the  
amount of fire and extended-coverage insurance. The buyer should realize  
that these values are not necessarily equal to sale or market values.  
There  
is probably no one good way to value assets of this kind. Their true  
value  
will depend on the amount of income that can be generated through their  
use.

Intangibles. Intangible assets are recorded on the balance sheet at  
their  
cost to the business less any amounts written off. The buyer is mainly  
concerned with whether the intangibles really exist and will benefit the  
business in the future. Patents and trademarks may have a market value  
and  
could, in some cases, be sold. But their market value is very hard to  
determine until they are sold.

The buyer may recognize that patents and trademarks will benefit the  
business but be unable to determine the degree of usefulness with any  
accuracy. He should at least recognize that patents have a limited life,  
and he should find out how much time is left before the patent expires.  
A  
trademark, if registered, is not limited and may benefit the business  
indefinitely.

Any goodwill on the balance sheet reflects an amount paid at some time  
in  
the past, less what has been charged off. There is no assurance that any  
goodwill still attaches to the business.

In the case of liquidation, intangibles are usually of no value.  
Anything  
paid for them is not likely to be recoverable.

#### Claims Against Assets

Accounts payable to trade. If the business is in financial difficulties,  
the creditors may be willing to adjust downward the amounts due them. In  
that case, the balance-sheet item should be adjusted to show only the  
amount required to satisfy the creditors' adjusted claims.

If some of the accounts are past due, it may be found that some of the  
creditors have mechanics' liens against assets of the business. This is  
primarily a legal matter. The buyer should consult his lawyer about this  
possibility.

Notes payable. It is possible that substantial interest accrued on notes  
payable has not been entered in the accounts of the business. This  
account

should be valued at the face amount of the notes plus interest accrued up to the date of the buy-sell agreement. If some of the notes are past their maturity dates, the buyer should consult his lawyer about the possibility of pending legal action against the business.

Accrued taxes payable. These amounts due are subject to audit by the taxing authority concerned. It is entirely possible that past discrepancies or failure to report taxes due might result in substantial penalties, interest, and back tax payments.

The buyer should try to ensure that a clear distinction is made between the seller's responsibility for taxes collected in the past and the buyer's responsibility for future tax liabilities. He must make certain that the account properly reflects all sales taxes collected and not yet remitted to the taxing authorities; all withholding and FICA taxes collected and not yet remitted; all unemployment taxes; all franchise taxes; and all excise taxes. He should also make certain that the business is not liable for any taxes it has failed to collect in the past.

Federal and State income taxes payable. A business organized as a single proprietorship or partnership does not pay income taxes as a business and therefore will not have this account. If the business is a corporation, the buyer should see that Federal and State income taxes of the business have been paid and that there is an adequate income tax accrual in the books for current income taxes payable. If income taxes have been improperly reported in past years, the corporation, even if it has changed hands, will have to pay any back taxes, penalties, and interest assessed against it.

Unearned revenues. The principal concern here is to make certain that all unearned revenues that have been collected are included in this account. Some businesses may record unearned revenues as earned revenues at the time of receipt.

Long-term liabilities. Most long-term liabilities will be evidenced by a formal agreement such as a note payable or a mortgage payable. They should be valued at the total amount owed, including interest.

Unrecorded liabilities. It is always possible that some notes payable, accounts payable, or accrued liabilities have not been included in the sellers' latest balance sheet. The buyer should be aware of this possibility and make at least a reasonable search for unrecorded liabilities such as these.

Contingent liabilities. This broad group includes a number of items that

may become liabilities to the business even after it changes hands. Usually few, if any, contingent liabilities appear on the seller's balance sheet.

For example, a delivery truck owned by the business may have been involved in a serious accident. If the business had inadequate insurance protection, there is a very real possibility that the business will have to pay substantial claims. Or perhaps warranties, express or implied, go with the merchandise or services sold. Future costs may be involved in honoring warranties already given by the seller. Such items could conceivably have an appreciable impact on the future profitability of the business.

The searching out of contingent liabilities is difficult. In fact, there may be no way to discover some of them. But any prospective buyer should search out whatever information he can about contingent liabilities of the business he is considering. Some of these investigations might best be done by the buyer's attorney. If the buyer knows the real answer to the question "Why is the seller willing to sell?" he may decide the business is not a good investment.

Owner's equity. If the above examination of the balance sheet has resulted in any changes in assets or liabilities, the owner's equity will have to be adjusted. It must equal the difference between total assets and total liabilities.

#### Income Statement

The buyer should examine the income statement closely to make certain that it gives a reasonably accurate picture of the results of past operations. He should determine that the revenues reported on the income statement were earned in the period covered by the statement. No prepaid or unearned revenues should be included in the income reported, and no revenue items that properly apply to the period should be omitted.

Expenses. Expenses should be examined to determine that all have been included and that all items included are proper expenses of the business.

If any personal living expenses of the owners have been paid by the business and included as business expense, these items should be eliminated.

Owner's salary. The amount of salary paid the owner is always a troublesome area. It may appear too high--or completely inadequate. The buyer should know the market value of his services. If the business will not provide him an adequate salary plus a satisfactory return on the capital he invest, he

may be better off financially to work as an employee and invest his money elsewhere.

Depreciation. The buyer should pay close attention to any writeoff for depreciation expense. The amount of depreciation expense claimed is basically a decision based on the judgment of the seller and his accountant as to which method to use in computing depreciation.

Common ownership. In some cases, the buyer may find that the business is one of a group of businesses under common ownership. If this is the case, the buyer should make certain that the business has been charged for all expenses that should be attributed to it. For example, has the business been charged for its clerical and bookkeeping services, or have these been supplied by the parent company at a nominal charge or no charge at all? If they have been supplied by the parent company, the income statement should be adjusted to include this expense.

Occupancy charge. Another item about which the buyer should be concerned is the occupancy charge. Is it unusually low? This might happen for any of several reasons. Probably the most common reason is that the seller owns the property and, once it had been fully depreciated, entered no charge for rent or depreciation. If this happens, an unrealistically high net income may be reported.

Another possibility is that the business may have been paying an abnormally high or low rent for the real property occupied. This situation often occurs when the business is one of a group of businesses with common ownership.

The buyer should take care that a realistic charge for occupancy of real property is included in the adjusted income statement.

#### Notes to Financial Statement

A financial statement may or may not have accompanying notes. If there are notes, they should be considered an integral part of the statement and read carefully. Often important contingent liabilities or contractual obligations are described in such notes. Unless the notes are read and interpreted, the analysis of the financial statements will be incomplete.

#### Incorrectly Prepared Financial Statements

Many financial statements prepared by small businesses are not prepared in conformity with generally accepted accounting principles. Often no clear distinction is made, for example, between the operations of the business and the owner's personal business affairs. Such items as gasoline and car

expenses that are actually personal living expenses of the owner of the business may be recorded as a business expense. The balance sheet may include as an asset the personal residence of the owner of the business. There may also be some items of business expense that were not recorded in the financial statements.

The buyer should keep in mind that the statements are only as reliable as the information that went into them. If the information is only estimated or is overstated or understated, the statements will reflect the inaccuracy. They should be adjusted to bring them as nearly as possible into line with accepted accounting principles.

#### Accrual Method of Accounting

If financial statements were prepared strictly on a cash basis, all cash inflow would be revenue and all cash paid out would be expense. Even fixed plant and equipment assets would be recorded as expense items at the time they were paid for instead of being charged off over the life of the assets through depreciation charges. Under the accrual method, all items of income are included in gross income when earned, even though payment is not received at that time. Expenses are deducted as soon as they are incurred, whether or not they are paid for at that time.

Normally, the accrual method of accounting is the only one that shows results of past operations accurately. If the seller's financial statements have been prepared on a cash basis, the buyer should make whatever adjustments are necessary to convert the statements to an accrual basis.

#### Chapter 11 - Analyzing the Financial Statements

WHEN THE FINANCIAL STATEMENTS have been made as accurate as possible, the buyer or his accountant should analyze the information they contain. Some comparisons and ratios that can be used to bring out trends and relations are discussed in this chapter.

Probably the first analysis to be made is to compare financial statements for the past 10 years or as close to that length of time as possible. Has the trend over the years been up or down, or has there been no significant change? All items on the statements should be studied.

The changes from one year to another will be more helpful if they are stated in percentages. On each year's income statement, the net sales figure is taken as 100 percent and each other item is stated as a percent of net sales. On the balance sheet, total assets are taken as 100 percent

and other items are stated as percents of total assets. Such statements are called "common size" statements. Typical comparative statements covering 2 years, with common-size percents, are shown in schedules 1 and 2 below.

#### Ratios and Other Analyses

Certain ratios and other expressions showing relations between items on the financial statements are also helpful in interpreting the statements. Schedule 3 illustrates several commonly used formulas based on the 1978 figures in schedules 1 (below) and 2. Each of them is discussed briefly following schedules 1, below, 2, and 3.

#### Schedule 1

##### Comparative Balance Sheet December 31, 1978 and December 31, 1977

	Amount		Percent	
	1978	1977	1978	1977
ASSETS				
Current assets:				
Cash.....	\$ 28,000	\$178,000	2.64	18.43
Marketable securities....	0	160,000	0	16.56
Accounts receivable (net)	136,000	128,000	12.83	13.25
Notes receivable.....	8,000	3,000	0.76	0.31
Inventories.....	380,000	368,000	35.86	38.10
Prepaid expenses.....	11,600	12,000	1.09	1.24
Total current assets.....	563,600	849,000	53.18	87.89
Property, plant, and equipment (net).....	396,200	77,000	37.38	7.97
Intangibles.....	100,000	40,000	9.44	4.14
Total assets.....	\$1,059,800	\$966,000	100.00	100.00
LIABILITIES AND OWNERS' EQUITY				
Current liabilities:				
Accounts payable.....	\$100,800	\$120,000	9.51	12.42
Notes payable.....	0	20,000	0	2.07
Accrued taxes payable....	1,600	2,400	0.15	0.25
Unearned revenues.....	6,000	0	0.57	0
Total current liabilities..	108,400	142,400	10.23	14.74
Mortgage payable.....	120,000	20,000	11.32	2.07
Total liabilities.....	228,400	162,400	21.55	16.81
Owners' equity:				
Original investment.....	500,000	500,000	47.18	51.76
Retained earnings.....	331,400	303,600	31.27	31.43
Total owners' equity.....	831,400	803,600	78.45	83.19
Total liabilities and				

owners' equity.....	\$1,059,800	\$966,000	100.00	100.00
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## Schedule 2

### Comparative Income Statement Years ended December 31, 1977 and 1978

	Amount		Percent	
	1978	1977	1978	1977
Gross sales.....	\$1,947,000	\$1,706,000	101.41	101.21
Sales returns.....	27,000	20,400	1.41	1.21
Net sales.....	1,920,000	1,685,600	100.00	100.00
Less cost of goods sold....	1,430,000	1,245,000	74.48	73.86
Gross margin.....	490,000	440,600	25.52	26.14
Operating expenses:				
Wages paid.....	282,800	243,000	14.72	14.41
Taxes.....	65,000	62,000	3.38	3.68
Insurance.....	48,000	48,000	2.50	2.85
Telephone.....	4,800	4,400	0.25	0.26
Miscellaneous.....	10,800	5,500	0.58	0.33
Total operating expenses...	411,400	362,900	21.43	21.53
Net income before taxes..	\$78,600	\$77,700	4.09	4.61

## Schedule 3

### Current ratio

Current assets, \$563,600  
----- = 5.2 to 1.  
Current liabilities, \$108,400

### Acid test or "quick ratio"

Cash plus assets near cash, \$172,000  
----- = 1.6 to 1.  
Current liabilities, \$108,400

### Days' sales uncollected

Accounts receivable, \$136,000  
----- x 365 = 25.5 days' sales uncollected.  
Charge sales, \$1,947,000

### Turnover of merchandise inventory

Cost of goods sold, \$1,430,000  
----- = 3.82 times, merchandise  
turnover.  
Average merchandise inventory, \$374,000

### Return on owners' investment

Net income, \$78,600  
----- = 0.0987, or 9.78 percent, return



on

Beginning owners' equity, \$803,600  
investment.

Return on total assets invested

Net income, \$78,600  
----- = 0.0742, or 7.42 percent, return on assets  
Total assets, \$1,059,800  
invested.

Owners' percentage equity in business

Owners' equity, \$831,400  
----- = 0.7845, or 78.45 percent.  
Total assets, \$1,059,800

Creditors' percentage equity in business

Creditors' equity, \$228,400  
----- = 0.2155, or 21.55 percent.  
Total assets, \$1,059,800

Current ratio. This ratio compares current assets to current liabilities.

In the example shown in schedule 3 above, there is \$5.20 in current assets for every \$1 of current liabilities.

The current ratio establishes an important relation between the business'

current debt and its ability to pay the debt. The assumption is that a company should be comfortably able to pay current debts from current assets

if necessary. In many businesses, however, especially service businesses,

current assets are proportionately smaller because there is little inventory. In these businesses, the relation of current assets to current liabilities may be less important.

Acid test or quick ratio. This ratio points out the relation between the current assets that can be most quickly converted into cash and current liabilities. It is similar to the current ratio except that it uses only assets that are just one step away from being cash.

"One step away from cash" means that only one additional transaction is needed to convert the asset into cash. For example, accounts receivable only have to be collected and marketable securities sold. Merchandise inventories that are normally sold on credit, on the other hand, are two steps away from cash. The inventory will first be sold and accounts receivable created. Then the accounts receivable must be collected before cash is realized from the inventory.

Days' sales uncollected. Days' sales uncollected shows how fast a business

collects its accounts receivable. One way to find this figure is to divide

the year-end accounts receivable by the total charge sales for the year and

multiply the results by 365.

For this computation to be valid, the accounts receivable must be fairly constant throughout the year. In most businesses, however, sales--and therefore accounts receivable also--tend to be higher at certain times of the year. It is better to use an average if possible.

Turnover of merchandise inventory. The turnover of merchandise inventory is the number of times the average inventory is sold during an accounting period. To find it, divide the cost of goods sold during the period covered by an average merchandise inventory at cost. A high turnover is usually a mark of good merchandising; but if the business only computes its inventory once a year, and that at the low point of the business's cycle, the turnover may appear better than it really is.

Return on owner's investment. The ratio of net income to proprietorship measures the owner's success in making a profit on the money he has invested in the business. Usually, net income after taxes and owner's equity as of the beginning of the year are used. (The beginning figure for any year is the December 31 figure for the year before.) If the owner's equity fluctuated greatly during the period, an average owner's equity should be used.

Return on total assets. This shows the return on the total investment of all who have a stake in the business, creditors as well as the owners.

Owner's percent of equity. For this percent, the year-end owner's equity is divided by the total assets. The share of the assets of a business contributed by the owner is always of interest to anyone trying to analyze the business. Creditors like to see a high proportion of ownership equity--the greater the owner's equity in proportion to that of the creditors, the greater the losses that can be absorbed by the owner before the creditors begin to suffer a loss.

Creditors' percent of equity. The ratio of creditor's claims to total assets is always 100 percent minus the owner's percent of equity.

#### Interpretation of Ratios and Percentages

The value of these ratios and percentages lies mainly in their use as tools of comparison rather than in their absolute values. Thus, a consistent increase or decrease in the current ratios of a business over a 5-year period establishes a pattern that may be significant. Suppose the current ratios for the 5 years are 7 to 1, 5 to 1, 4 to 1, 3 to 1, and 2 to 1.

Clearly, the ability of the business to meet its current debt is declining.

Another important use of ratios is to compare the company's performance with that of similar businesses. For almost every size and type of

business, there are published ratios of expenses to sales that are accepted throughout the industry. A comparison between the ratios of the business offered for sale and averages for the trade will bring out any discrepancies. Some of the discrepancies may be due simply to poor management, but each one should be investigated.

#### Evaluation of Past Years' Profits

In using a net-profit figure for past years to project the future earning potential of the business, the buyer or seller should exclude the profit of any year that is unusually high or low because of exceptional circumstances. It may also be wise to use a weighted average for the past years' profits.

Assume, for example, that two similar businesses are to be compared. Their profits for the past 5 years have been as follows:

Year	Company A	Company B
1.....	\$18,000	\$2,000
2.....	14,000	6,000
3.....	10,000	10,000
4.....	6,000	14,000
5.....	2,000	18,000
	-----	-----
Total.....	\$50,000	\$50,000
	-----	-----
Average.....	\$10,000	\$10,000

Both businesses show the same average profits over the 5 years and would therefore, on the basis of a simple average, be valued at the same figure.

But while company A has been declining, company B has been growing. Some method is needed that will give more emphasis to the profits of the later years.

A weighted average can have this effect. How much the later profits are emphasized over the earlier years will depend on what multiplier is used, and the choice of multiplier is a matter of personal opinion. Here is an example of how a weighted average could be used to give effect to trends in comparing companies A and B:

Year	Company A	Company B
1.....	\$18,000 X 1 = \$18,000	\$2,000 X 1 = \$2,000
2.....	14,000 X 2 = 28,000	6,000 X 2 = 12,000
3.....	10,000 X 3 = 30,000	10,000 X 3 = 30,000
4.....	6,000 X 4 = 24,000	14,000 X 4 = 56,000
5.....	2,000 X 5 = 10,000	18,000 X 5 = 90,000
	-- -----	-- -----
Total.....	15 \$110,000	15 \$190,000
	-- -----	-- -----

Weighted

av.....\$110,000 div. by 15 = \$7,334     \$190,000 div. by 15 = \$12,667

In assessing the future of the business, the buyer must take into consideration any changes he plans to make in the basic financial structure of the business, such as putting in additional capital or not buying all the assets. However, he should not pay for future profits he is going to earn by reason of his own special skills or additional investment. In determining the future income he is purchasing, therefore, he must rely largely on past results of the business operation.

#### Effect of Changes in Price Levels

When the buyer is analyzing several years' financial statements, he must keep in mind the effect on the statements of changes in price levels; that is, in the purchasing power of money. He should consider the possibility of converting the amounts on the financial statements to a base year.

#### Putting a Value on Goodwill

Goodwill, when it exists, is a valuable asset. It may result from a good reputation, a convenient location, efficient and courteous treatment of customers, or other causes. However, because it is intangible and difficult to measure, goodwill is sometimes recorded when it does not exist.

From the accountants' standpoint, goodwill should be recorded only when it is purchased. It should not be recorded otherwise, they believe, because of the difficulty of placing a fair value on it.

As a practical matter, above-average earnings are normally considered the best evidence of the existence of goodwill, and the value placed on the goodwill at the time of its sale is often determined by capitalizing these extra earnings. Take, for example, a business in a field in which the normal return on investment is 10 percent. Suppose the business has a capital investment of \$200,000 and an annual return of about \$24,000. The average return on \$200,000 for this type of business would be \$20,000 a year. Therefore, the business has above-average earnings of \$4,000 yearly.

Capitalizing these above-average earnings at 10 percent (\$4,000 div. by .10) gives \$40,000 as the investment needed to earn the \$4,000. Therefore \$40,000 may be taken as the value of the goodwill of this firm.

Many people feel that unless a business has above-average earnings, it does not have goodwill. Thus, a business might appear to have an excellent location, enlightened customer policies, and a superb product; yet this business will not have goodwill attaching to it unless its earnings exceed the normal earnings for that type of business.

The measurement of goodwill has many pitfalls. To begin with, a decision

must be made as to what normal earnings are. (Industry averages will probably be available, but average earnings for the industry aren't necessarily normal earnings.) And once this decision has been made, the percent at which the above-normal earnings will be capitalized must be decided. In the example given, 10 percent was used. This means that the buyer should recover his investment in 10 years. If he wants to recover his investment more quickly, he will want to use a higher percent, which will give a lower capitalized value. If he is willing to wait longer, he will accept a lower percent, which will raise the capitalized value.

Goodwill is simply a bookkeeping device to represent the value of one part of a business when that business is valued as a whole. In most cases, the total value of the business is decided without a detailed calculation of the goodwill figure--in many cases, without even detailed consideration of the value of the other assets.

#### Checklist

1. Get financial statements for the past 10 years or as long as the business has been in operation.
2. Make whatever revaluations of the financial statements are necessary to make the statements realistic.
3. Prepare ratios and percentages as needed.
4. Compare results of the company's operations from year to year in the past and with results in the industry at large.

#### Questions To Be Considered by the Buyer

1. What will happen to the profit when I take over the business?
2. How good is the accounting system that has been used?
3. How good is the cost system?
4. How realistic are the budgets?
5. How much owner's personal expense has been charged to or absorbed by the business?
6. Is there an equipment record--for insurance and to tell me what it costs to maintain various types of machinery?
7. Is the insurance adequate?
8. What have the financing arrangements been, particularly if sources other than a bank were used?
9. What is the rate of return on capital invested and what rate of return do I want for my capital investment?

#### Part 5 Analyzing the Market Position of the Company

##### The Market

##### Introduction: Market Analysis

EVERY BUYER, and indeed every seller, should have some measurement of what the future will offer. This includes not only the possibility of

maintaining the same volume of sales as in the past, but also the opportunity to increase sales.

The buyer must have some idea of what he is acquiring besides the physical assets of the business. He is, in fact, investing in or obligating himself to the continued operation of the business. The true value to him lies in the ability of the business to generate sales at least equal to its current position in the market. This calls for a careful investigation and analysis of two factors: (1) the past growth of the company within the market of which it is a part, and (2) a forecast of the future sales pattern.

The seller also needs a market analysis for the business he proposes to sell. He wants the best possible price for the business--and the better the outlook, the more likely the buyer is to agree to the asking price.

Who Does the Work?

Will a single market analysis fill the needs of both buyer and seller? Separate studies are probably better. The seller has access to data about the business that are not available to the buyer. Unless the buyer has had wide and recent experience in the same kind of business, he may--rightly or wrongly--tend to rely on the seller's statement of the market position of the company.

No two studies of the same company will produce exactly the same results. The buyer's analysis is almost certain to be on the conservative side, and a compromise will be necessary.

Another question is whether the buyer and seller should conduct their own market studies or hire specialists to do it. The detailed and complex type of investigation conducted by a professional market analyst is valuable, of course, but the cost is considerable.

The basic purpose of a market analysis in the buy-sell situation is to get a clearer picture of the company in the marketing scheme and some indication of the general direction in which it is moving. The buyer and seller should be able to gather and analyze the basic data they need for this purpose--if they avoid a highly statistical approach.

Organizing the Study

Part 5 includes five series of questions and a checklist to guide the buyer or seller in his analysis of the market position of the business.

## Sample rating charts

COMPANY SALES:					
Year	Dollar sales		Percent change		
1974.....	\$	_____	_____		
1975.....		_____	_____		
1976.....		_____	_____		
1977.....		_____	_____		
1978.....		_____	_____		
Dollar increase 1978 over 1974.....	\$	_____	_____		
Percent increase 1978 over 1974.....		_____	_____		
How satisfactory?	1	2	3	4	5

SHARE OF MARKET:					
Year	Industry sales	Company sales	Share of market (percent)		
1974.....	\$	\$	_____	_____	
1975.....	_____	_____	_____		
1976.....	_____	_____	_____		
1977.....	_____	_____	_____		
1978.....	_____	_____	_____		
Change in share of market 1978 over 1974.....	_____		_____		
How satisfactory?	1	2	3	4	5

The list of questions is not complete, and not all of those given will be equally useful for all types of businesses. The nature of the business determines what kind of information is needed and in what detail. The questions will, however, call attention to some aspects of the market that might otherwise be overlooked.

Determining how important to the business a specific market characteristic is presents a problem. What is vital to one company may be unimportant to another. And some system should be worked out for rating each characteristic.

A possible method for this is to list the major subject areas in the study, showing their relative importance, and then to rate them according to a uniform system--a rating scale using numbers, for instance, or words such as "high," "medium," "low," and "not significant." An example of how a numbered scale might work in rating the company's sales over time (one of the characteristics most likely to be studied) is shown in the box above.

## Chapter 12 - The Market

THE STRENGTH OF A MARKET depends on three elements: population, income, and motivation or attitude. The first two can be measured with some accuracy

and predicted statistically. Motivation, being subjective, cannot be easily observed and is largely unpredictable.

#### Population in the Market Area

Population, particularly the pattern within the given market, is a dominant element in the market prospects of a business. Changes in age distribution of the population will be important to some types of businesses. Migratory factors such as shifts from rural to urban and from urban to suburban may determine the future growth of others.

Many businesses, such as food stores, will be influenced principally by the total growth in population. Others will feel the impact of structural changes--the older group with its special requirements, the increase in the infant market.

Rapidly growing communities show a larger-than-normal proportion of young families; areas with a static or declining population, a larger-than-normal proportion of older families. How permanent the population in the market is must be considered. In areas where employment is seasonal or cyclical, a large part of the population may be only semipermanent.

An analysis of population consists of more than simply counting noses. It requires a careful study of both qualitative and quantitative characteristics.

#### Questions in the Analysis of Population

1. What has been the change in total population in this market area over the past 10 years?

A comparison of census figures will show these changes. The use of census tracts in major metropolitan market areas is helpful. Many city and county government units compile population figures on various geographical bases.

2. Using a given year in the past as a base, what has been the annual and cumulative percent of change in population in this market area?

The cumulative percent of change is found by dividing each succeeding year by the first year. It shows as a percent how each year up to the present compares with the base year. Plotting the figures on a graph helps to visualize the progressive change.

3. What is the average family size? Has this been increasing or decreasing?



In many consumer-goods businesses, the size of the average family unit may be more important than total population, particularly where there are observed changes in family size. Increase in the size of the family unit has had a profound effect on many classes of consumer goods, from station wagons to outdoor gym sets.

4. What is the population in this market measured in family units?

The rate of change in family units will not be the same as the rate of change in total population if the size of the average family unit is changing.

5. What is the current distribution by age groups in the market? How has this distribution changed in the past 10 years?

Nationwide, the age distribution of the population is not the same as it was a few years ago. The under-5 and over-65 groups probably show the greatest rate of change. The buyer should know whether the seller has been alert to these changing patterns and is taking advantage of them.

6. What percent of the population in this market can be classified as urban, suburban, rural? How has this changed over the past 10 years?

Changing living patterns and habits change the demand patterns for various types of goods and services. If population shifts are changing the market or shows signs of being about to do so, the businessman must try to determine how much effect this has or is likely to have on his operation.

7. What percent of the family units in this market have only one person? Two? Three? Four? More?

A breakdown of family units by number of persons in the family has value for businesses whose sales volume is at least somewhat related to family size. A manufacturer of outdoor portable swimming pools, for instance, would be interested in family sizes because this would influence the production of various sizes of pools.

8. What percent of the total population or family units are potential customers for this kind of business?

This is particularly important for businesses whose goods or services are related to the way people live. The demand for three-horsepower garden tractors will depend on the number of families living on small acreages. Septic tank sales will depend on the families not eligible for public sewerage services. An analysis of the market for specialized goods and services may be the key to evaluating the future of the business.

9. How has the total population been changing over the past 10 years? Is it--

Increasing at an increasing rate?  
Increasing at a decreasing rate?  
Showing no change?

Decreasing at a decreasing rate?  
Decreasing at an increasing rate?

Population may be continuing to increase, but at a slower rate. This would probably suggest less in-migration and more out-migration, or perhaps a reduced birth rate, though this would probably occur over a fairly long period of time. Analysis of vital statistics of the market (births over deaths) is advisable.

10. What is the level of education in the market? Is it increasing? What is the rate of increase? What is the level of education by age groups in the adult population? Education of the male population? Female population?

Generally, the higher the education level, the higher the income level is likely to be, with correspondingly greater capacity for goods and services. Trends in the level of education, particularly when correlated with income, may indicate future potential.

#### Income in the Market Area

Income as used here refers to net spendable income rather than gross earnings. Of the spendable income, the primary concern is with that which remains after fixed or relatively fixed obligations have been met--rent or home payments, utility payments, insurance premiums, and the like. The amount left is the income over which the consumer has some control--whether to spend all of it or some.

How each consumer spends this income is largely a matter of personal motivation. The total amount available for consumption in the market, however, depends on the economic factors influencing income. Variations in total income and the resulting purchasing power stem largely from two sources: (1) changes in the average income of the family unit, with the same general level of employment prevailing; and (2) changes in the level of employment with the average income constant.

The difference between earned income and real income must also be recognized. If the cost of living is increasing at a rate about equal to the purchasing power, there is no gain in purchasing power. Dollar purchases may increase, but each dollar buys less. The net difference between the increase in income and the increase in prices reflects the true gain or loss in income converted to purchasing power.

Some classes of goods and services show no positive relation between demand and income levels. For example, when incomes rise, more dollars are spent for food, but the percent of income channeled into these goods is smaller.

Income is important in market analysis because changes in income are reflected in the demand patterns for goods and services. No business is free from this effect. As barbershop prices increase, the interval between haircuts increases and the sale of hair clippers for home use rises. The demand for funerals in a rising market does not change, but the degree of ornateness in the casket or services decreases.

#### Questions in the Analysis of Income

1. What is the total spendable income within the market area? What is the average per capita income? Average per family income?

2. What has been the rate of change in income (per capita, per family) over the past 10 years on both a year-to-year basis and a cumulative basis?

Changes in income reflect the changing status of the market. The change is most likely to be an increase, but the extent of the increase should be known.

3. How does the rate of change in income in this market compare with changes in the Nation as a whole and in similar markets?

The economic factors affecting the income status of a given market may differ from those at work in the economy as a whole, but it is helpful to know how changes in this market compare with trends in other markets.

4. What is the distribution of income and purchasing power by income class in the market?

A frequency distribution such as this can be used to analyze income and purchasing power:

Distribution	Percent of family units	Percent of total purchasing power
\$0 to \$4,999	_____	_____
\$5,000 to \$7,999	_____	_____
\$8,000 to \$13,999	_____	_____
\$14,000 to \$19,999	_____	_____
\$20,000 and over	_____	_____

The \$8,000 to \$13,999 income group, for instance, might represent 32 percent of all family units and 38 percent of the purchasing power; the \$20,000-and-over group, 5 percent of the family units and 11 percent of the purchasing power. The higher-income groups will ordinarily be smaller, but they will have a higher-than-proportionate purchasing power.

5. How has the distribution of income and purchasing power by income classes changed over the past 10 years?

This information should be reduced to year-to-year and cumulative percentages.

6. What are the types of employment and the percentage of the working force in each class?

Here, again, changes over time should be studied.

7. Have there been any significant changes in the forms of employment in this market over the past 10 years? What changes in industry and employment in this market are foreseeable?

8. What is the level of unemployment in this market area? Is unemployment increasing? Decreasing? Showing no appreciable change?

Knowledge of the unemployment trend is important because of the direct effect it has on purchasing power and the psychological effect of the threat of unemployment.

9. How much do consumers typically spend for various classes of goods and services in this kind of market?

#### Competition in the Market Area

The buyer of a business not only acquires the physical property of the company; he also inherits its competition. He will probably be able to do little or nothing to lessen the competitive pressure operating against him, but he can develop a clear working knowledge of what he will face--the state of competition, the relative strength of the business within the market, the general patterns of development and change. A detailed analysis of the competition is highly desirable in deciding whether to buy an existing business.

Attention should be given first to competitors of about the same type and size as the business in question, since they are on a more realistic level of competition. A small clothing store would be wise to concern itself with other small clothing stores rather than with a high-volume department store. In time, a small operation might grow to the point of competing successfully with major firms, but the immediate pull of competition will come from other businesses of about the same size and description.

Investigation of large businesses, if any is made, should concern the extent to which they enlarge the total market, stimulate demand, or otherwise open up market possibilities to the smaller business.

#### Questions in the Analysis of Competition

1. How many competitive businesses are there within the market area of this business? Where are they located? What can be found out about them? From whom?

The market area in this sense is the trade area in which the business

operates. In a retail, wholesale, or service business, this trade area may be rather narrowly defined. In a manufacturing or mail-order business, there may be a number of markets--regional, national, and perhaps even international.

Markets can be further defined as either consumer-goods markets or industrial goods markets, depending on the nature of the business and the goods or services with which it deals. The market or markets must be carefully identified to avoid any waste of time and effort in making the analysis.

2. How many competitive businesses have gone out of business or moved out of the market area within the past year?

If there has been a decline in the number of competitors, an attempt should be made to find out why. If the decline has been significant, it may indicate that there are too many businesses of that type for the potential sales volume. If other areas of the analysis tend to indicate a declining market, exodus of competing businesses may help support those findings.

3. How many competitive businesses have opened in this market area within the past year?

Is this increase in competition more than should normally be expected? What circumstances have been responsible for the increase in competition? Can the market support all these businesses?

Unless the market grows in proportion to new competitive entries, the net result is a smaller share for each competitor.

4. What is the total known or estimated volume of competitive business within the market area?

This should give a cross-check on the volume of business done by the company up for sale. The total sales estimate for the market less that done by the company gives a reasonably accurate estimate of the volume going to the competition. Or the sales of the company can be estimated by subtracting competitors' sales from total sales in the market.

5. What sort of sales effort does the competition make?

How do the competitors advertise, promote? What advertising media are used? How much?

What is the quality of competitors' sales forces? Could business be drawn from competitors by improving on their sales ability?

There is likely to be considerable variation in the level of sales

effort

between competitors in the same market, from those who are highly aggressive to those who simply "follow the crowd." The person investigating the market should analyze competition from this point of view as intensively as possible.

6. What is the total footage of all competitive businesses within the market area?

From the total gross footage and total estimated volume, it is possible to get an overall sales-per-square-foot average to compare with the company under consideration.

7. What is the general physical appearance of competitive establishments in the market area?

Generally speaking, alert, progressive firms present an up-to-date physical appearance and use the newest techniques of operation. A generally high level of overall appearance gives some indication of the aggressiveness of the competition.

8. What other competitive businesses are known to be for sale within the market area?

If general business conditions are such that other competitors are seeking to get out of the market, the prospective buyer should know it. It may signify that the area is not a good one for entering business. On the other hand, a lessening of competition leaves to the business in question a larger potential volume. The reasons why competitors have left the market area should be learned. A decision to purchase assumes economic health in the market.

9. What other kinds of businesses are in indirect competition--that is, deal at least to some extent in the same kinds of goods or services as the business being considered for sale or purchase?

Businesses are constantly adding lines of merchandise, expanding services offered, and creating new products. As a result, the pattern of competition changes rapidly. The buyer, and presumably the seller, should be aware of these changes and their likely effect on the business in question.

10. Can the competitive businesses be rated, taking all factors into account, from the strongest or most dominant to the weakest?

What characteristics of the strongest competitors should be studied with an eye to improving the business being bought or sold? What weaknesses of the

competition might the buyer or seller be able to capitalize on?

11. What kinds of services to customers are competitors offering that this business does not?

Customer services are becoming a dominant force in attracting and holding customers. Services offered to customers by competitors should be investigated carefully to determine the effect these have on attracting sales volume.

12. What are the general pricing policies of competitors?

An actual price comparison of specific products or services should be made.

Attention should be concentrated on general price levels rather than specific items--the purpose is to compare this company and its competition, taking into account cost of merchandise, relation with sources of supply, cost of operation and so on.

13. How influential has the competition been in enlarging the overall market?

Demand is classified in two ways: primary demand, which is the demand for certain kinds of goods or services, and selective demand, which is demand for a given brand or desire to purchase from a specific company. Competition, through promotion and sales effort, must be able to enlarge market capacity for a product by type or class. The combined sales effort of all appliance stores in a market, for example, will expand the primary demand for air conditioning. Thus the separate but total force of competition may have the positive effect of expanding the basic market.

14. How does the competition compare with the business in the buy-sell transaction as to the amount apparently spent on sales effort?

The nature and extent of advertising and promotion is often a strong indicator of the competitive intensity of business within a market. As the market becomes more competitive, sales-effort costs as a percentage of sales tend to rise. A study of competitive advertising and promotion--the media and methods used, the form the promotion follows--would be of value in the market analysis.

15. Is there evidence of concerted or cooperative effort on the part of the competition to increase the total market?

Through trade associations? Joint promotional programs? How effective does the effort appear to be?

Chapter 13 - The Company

Just as important as a study of the market as a whole is a study of the position in that market of the company under existing conditions.

#### Location

When a brand new business is being opened, the prospective owner has some choice about location. In buying a going concern, this is seldom possible.

The seller is not likely to sell the assets of the firm with the understanding that the buyer will find other premises. Neither is it likely that the buyer will acquire the assets and then seek other quarters from which to operate. Location, then, remains as it is at the time of the buy-sell transaction. The buyer should give careful thought to the location of the business he is considering, particularly in the relation to the market of which it is part.

#### Questions in the Analysis of Location

1. Is there any possibility that the status of this location will change in the foreseeable future?

Urban renewal programs, for example, have a direct effect on business locations as well as on residential buildings. The buyer should look carefully into the possibility that the area will become a target for urban development that would require him to vacate the premises. The same investigation should be made in connection with other forms of development that might cause land condemnation or change of status--highways, flood-control projects, military uses, rezoning, and the like.

2. What specific factors should be examined in determining the desirability of the location?

The following outline suggests point that should be considered in evaluating the location of a retail store. It can be adapted for use with other types of businesses.

#### Checklist for Locating a Store

##### City or Town

1. Economic considerations
  - Industry
    - Farming
    - Manufacturing
    - Trading
  - Trend
    - Highly satisfactory
    - Growing
    - Stationary
    - Declining
  - Permanency
    - Old and well established



- Old and receiving
- New and promising
- Recent and uncertain
- Diversification
  - Many and varied industries
  - Many of the same type
  - Few but varied
  - Dependent on one industry
- Stability
  - Constant
  - Satisfactory
  - Average
  - Subject to wide fluctuations
- Seasonality
  - Little or no seasonal change
  - Mild seasonal change
  - Periodic--every few years
  - Highly seasonal in nature
- Future
  - Very promising
  - Satisfactory
  - Uncertain
  - Poor outlook

## 2. Population

- Income distribution
  - Mostly wealthy
  - Well distributed
  - Mostly middle income
  - Poor
- Trend
  - Growing
  - Large and stable
  - Small and stable
  - Declining
- Living status
  - Own homes
  - Pay substantial rent
  - Pay moderate rent
  - Pay low rent

## 3. Competition

- Number of competing stores
  - Few
  - Average
  - Many
  - Too many
- Type of management
  - Not progressive
  - Average
  - Above average
  - Alert and progressive
- Presence of chains
  - No chains
  - Few chains
  - Average number
  - Many well established
- Type of competing stores
  - Unattractive
  - Average
  - Old and well established

Are many people shopping outside the community?

4. The town as a place to live

Character of the city

Are homes neat and clean, or run down and shabby?

Are lawns, parks, streets and so neat, modern, and generally attractive?

Are adequate facilities available?

Banking

Transportation

Professional services

Utilities

Schools

Churches

Amusement centers

Medical and dental services

Is the climate satisfactory for the type of business you are considering?

The Site

1. Competition

Number of independent stores of the same kind as yours

Same block

Same side of the street

Across the street

Number of chain stores

In the same block

Same side of the street

Across the street

Kind of stores next door

Number of vacancies

Same side of the street

Across the street

Next door

Dollar sales of your nearest competitor

2. Traffic flow

Sex of pedestrians

Age of pedestrians

Destination of pedestrians

Number of passersby

Automobile traffic count

Peak hours of traffic flow

3. Transportation

Transfer points

Highway

Kind (bus, streetcar, auto, railroad)

4. Parking facilities

Large and convenient

Large enough but not convenient

Convenient but too small

Completely inadequate

5. Side of street

6. Plant

Frontage and depth--in feet

Shape of building

- Condition
- Heat--type, air conditioning
- Light
- Display space
- Front and back entrances
- Display windows

7. Corner location--if not, what is it?

8. Unfavorable characteristics

- Fire hazards
- Cemetery
- Hospital
- Industry
- Relief office
- Undertaker
- Vacant lot--without parking possibilities
- Garages
- Playground
- Smoke, dust, odors
- Poor sidewalks and pavement
- Unsightly neighborhood buildings

9. Professional men in block

- Medical doctors and dentists
- Lawyers
- Veterinarians
- Others

10. History of the site

Sales effort

The discussion here concerns the nature of the company's effort and measurement of its cost against the resulting sales. For practical purposes, selling effort can be classified as indirect and direct. Indirect sales effort includes all forms of nonpersonal customer-oriented advertising and promotion. Direct sales effort is the performance of persons directly engaged in selling the merchandise or services offered.

Questions in the Analysis of Sales Effort

1. How much was spent for advertising during the past year? How much per year for the past 10 years?

These figures should be reduced to percent of change so that the results over time can be studied

2. What advertising media were used and what percent or estimated percent of the total advertising expenditures went to each medium?

- Newspapers?
- Trade papers?
- Magazines--kinds of magazines?
- Broadcast media--radio, television?
- Other forms of advertising?

The question is whether the media being used are a reasonable choice considering the amount that can be spent.

3. What changes have been made in the use of advertising media? Is the company relying more on one form of advertising than the past? If so, why the change?

No one advertising medium is best for all types of business. There is sometimes a tendency, however, to switch media too often, without giving any medium enough time to show its real value.

4. How does the cycle of advertising vary in relation to seasonal sales fluctuations? As sales increase, do advertising costs increase in about the same proportion? What is the pattern?

Dollar advertising expenditures usually rise as sales volume rises but not as fast percentage-wise. When sales drop, there is a tendency to spend either too much or too little in relation to normal seasonal changes, depending on the urgency felt by the advertiser.

5. If advertising allowances are available from vendors or sources of supply, is the company taking advantage of them? What kinds are available?

Advertising allowances, if properly used, make it possible to do more advertising with less money. An alert advertiser will take advantage of all advertising allowances he feels to be reasonable and useful to his business.

6. Is the company taking advantage of other available promotional services such as newspaper mats and so on?

Many suppliers offer advertising services that help improve the quality of the advertising, reduce the cost, or perhaps both. The company's use of all advertising and promotional helps should be analyzed.

7. What percent of sales was spent on advertising last year? For the past 10 years? Is this increasing? Decreasing?

It is important to know not only changes in the pattern of advertising expenditures, but the relation between these changes and changes in sales volume.

8. How do the advertising and promotion costs of this business compare with typical or average figures for this kind of business? Higher? Lower? About the same?

Figures are available from trade sources and other reporting agencies that will give standard of comparison.

9. Are other forms of promotion being used effectively? Window display?

Interior layout and display?

For many kinds of many kinds of businesses, other promotion methods may be as important as media advertising, or even more so. All possibilities should be studied as to their importance in the business under consideration.

10. Is the company capitalizing on all special promotion events suitable to the business?

This point covers a wide range of activity. Examples might be maximizing sales effort at the seasonal peak or peaks of the business, using trading stamps or other premiums, participating with sources of supply in special promotions, and so on.

11. What percent of sales has gone into selling-payroll costs for the past 10 years? What has been the trend? Are selling costs increasing, remaining about the same?

Changes in selling costs should be studied singly, in comparison to changes in sales volume, and in comparison to standards or averages for businesses of the same kind.

12. What is the quality of the selling effort of this company as shown by such factors as training, sales attitude, methods of compensation, and the like?

Selling-payroll costs as a measure of sales effort do not reveal the forces at work behind this effort and effecting its quality. Motivation of sales personnel through training, method and amount of compensation, and sales management should also be considered.

Past sales

The history of sales growth within the company and in relation to similar businesses is considered the principal measure of company progress. The buyer or seller should note three types of variations that influence sales and how each may effect the buy-sell transaction.

Seasonal fluctuations. All businesses are affected to some extent by seasonal variations in the demand for goods or services. These variations may be the result of numerous factors--buyer motivation, weather, specific events. Their nature, causes, and extent should be identified as fully as possible. Some are reasonably predictable; others are not.

The prospective buyer of a business should think in terms of completing the purchase just before the maximum seasonal peak of the company. This will give him the greatest possible short-term gain and return on investment. Buying a business immediately after the maximum seasonal peak puts an additional burden on short-term working capital.

The seller is likely to take the opposite view. He is most likely to want to sell immediately after the seasonal peak of the company, thus realizing the best possible profit. (It is assumed here that in relation to sales peaks and valleys would have no appreciable effect on the market or replacement value of assets other than merchandise.)

Cyclical fluctuations. Cyclical fluctuations are changes that occur over a longer period of time but tend to appear somewhat regularly. Periods of depression and prosperity will obviously affect the future of a business. The major difficulty is to determine what effect such fluctuations will have on the businesses being bought or sold.

Long-range trends. Long-range patterns of change in an industry or a given business fall within this classification. The interplay of forces creating such trends is extremely complex, but the buyer in particular should be alert for changing patterns in his industry or market that are likely to affect the future of the business.

#### Questions in the Analysis of Sales

1. What has been the year-to-year change in dollar sales?

The length of time to use is largely a matter of judgement. If the figures are later to be used to make projections, a 10-year period or more is not unreasonable if the company has been in business that long. Converting the dollar figures to yearly percent of change and plotting them on a graph makes them easier to interpret.

2. Using a given year in the past as a base, what has been the cumulative rate of change up to the present?

Again, plotting the figures on a graph helps to visualize the changes.

3. What has been the percent of change in sales, year-to-year and cumulative, for this kind of business on a national or other basis?

The year should be comparable to those used in questions 1 and 2 so that the pattern of change for the company can be compared with that for like businesses.

4. How much of the increase or decrease in sales can be attributed to increasing or decreasing prices and how much to real sales?

The fact that sales have shown an increase may lead to a false conclusion that the company has shown good growth. In some types of businesses, merchandise costs have increased rapidly. An average increase of 2 percent per year in sales over 5 years changes in significance when it is known that prices have increased 8 percent during the same period. Consumer and wholesale price indexes should be checked, as well as other factors that may indicate rising prices.

5. Have prices in this company increased more rapidly, less rapidly, or at about the same rate as those in this kind of business generally?

It is important to know how the business compares in this respect with similar firms. If it is out of line, what is the reason?

6. Over a period of years, what has been the change in the level of sales for this business as compared to all businesses of this type? Are sales--

- Increasing percentage-wise more than normal?
- Increasing about the same rate?
- Increasing less than normal?
- Showing no increase at all?
- Decreasing less than normal if like businesses are decreasing?
- Decreasing at about the same rate?
- Decreasing more than normal?

7. What is causing the increase or decrease in sales (a) for this company and (b) for similar businesses?

This point may prove to be the one that basically determines the decision to buy or sell the business.

8. Has the rate of change in sales been increasing?

Are sales increasing more rapidly now than, say, a year or two ago? Are sales increasing less rapidly now? If sales are decreasing, has the rate of decrease increased or lessened?

9. At the same time of the study, where does the business stand seasonally?

Is this normally the low point for sales in this kind of business? Is it the high point? Somewhere in between? Is seasonal variation so minor as to have little or no significance? Are seasonal variation predictable?

Seasonal variations may have a strong bearing on when the buyer is willing to purchase, when the seller is willing to sell, and the price.

10. What percentage of the year's business is done each month? What is the monthly average over the past several years?

Monthly sales averages help to determine immediate working capital requirements and to plan sales for the months ahead. They are especially important when the sales of a given month as a percent of the year's total

do not vary greatly from year to year. If there has been considerable variation, the reasons for it should be identified if possible.

11. Do there appear to be any changes in the seasonal pattern of sales?  
If  
so, what appears to be causing these changes?

Changes in consumer buying habits, the pressure of increased competition, governmental regulations, and the like create changes over time that may affect the short-term sales cycle of the business.

12. If a change in the seasonal pattern is occurring, does it tend to increase total sales or merely shift the volume from one month to another?

A comparison of several years' sales may show that the overall effect is not a proportionate gain in total business but a readjustment of sales from month to month throughout the year.

13. If cyclical changes have any effect on this kind of business, what is the nature of the fluctuations? How often do they occur? With what intensity?

14. Have sales of this business in the past tended to show the effect of these cyclical fluctuations? To what extent? Intensity?

Knowing the effect of cyclical changes on the business may give some idea of what can be expected from the standpoint of intermediate-range planning and forecasting.

15. If the business is influenced by cyclical fluctuations, at what stage is the cycle at the time of the study?

Cyclical fluctuations may be the result of broad-scale economic circumstances, but the intermediate effect on a given business may not be in proportion to normal economic indicators.

16. What is the ratio of operating expenses to sales in the most recent operating statement?

A comparison of these costs with ratios or averages of similar businesses should give an indication of the operating efficiency.

17. What has been the year-to-year and average ratio of operating expenses to sales for past years?

Have operating expenses tended to increase, decrease, or remain about



the  
same in relation to sales?

Has the relative change in operating expenses been about equal to,  
greater  
than, or less than the relative change in sales?

On a cumulative basis, what has been the change in the pattern of  
operating  
expenses over the past years?

18. Are selling costs (sales, salaries, advertising, delivery)  
increasing,  
decreasing, or remaining the same in relation to sales?

If selling costs are increasing faster than sales, each dollar spent on  
selling effort is bringing in a smaller return. This information may  
suggest possible ways of increasing the efficiency of the company's  
sales  
effort.

19. What is the ratio of net sales to gross sales and what has been the  
trend of this ratio over the past years?

An increase in the difference between net and gross sales may indicate  
weaknesses within the company in policy, sales effectiveness,  
merchandising, quality control, or a combination of the two or more of  
these factors.

20. What are the reasons for customer returns and allowances and what  
action is being taken to reduce them, if reduction is possible?

Care should be taken in analyzing the sales of a company to see that  
gross  
sales are not taken as net sales, particularly if lenient returns and  
allowances have been a part of the sales program.

21. What has been the pattern in the value of the average transaction  
over  
the past years?

Sales may be stationary, but the number of transactions may increase or  
decrease, thus changing the value of the average sale. Or sales may be  
changing but disproportionately to transactions. The ideal to be sought  
in  
an increase both in the value of the transactions and in their number.

22. How do transactions in this business compare in average value and  
number with those of similar businesses throughout the industry or  
market  
area?

This will give a standard of comparison to show how well the company has  
been able to realize an average sale in terms of what it would be normal  
to  
expect.

23. What are the current sales per square foot of floor space for the  
business? What has been the trend in sales per square foot for the past  
several years? How does this compare to known averages or ratios for  
other

businesses of this type?

The purpose of this analysis is to estimate how efficiently space is being used for sales purposes. It may be figured on the basis of total gross footage, including area used for other than selling purposes, or it may be limited to the space devoted primarily to selling and merchandising.

#### Chapter 14 - The Sales Forecast

When the business and the market have been analyzed, the probable sales volume of the business can be forecast. This forecast should be a simple projection of the business involved; it should not be an attempt to forecast or project the total state of the market. The variables that influence the market are too vast and complex for a small businessman to do anything about. It will have to be assumed that what has happened to establish the condition of the market as it is, will continue to have the same general effect, at least for the period just ahead.

This is a dangerous assumption--markets and the economy are dynamic, not static--but from the practical point of view, there is little choice. In any case, it is usually over longer periods of time that changing market factors make themselves felt.

#### Sales Forecast vs. Sales Potential

A distinction is necessary here between making a sales forecast and estimating sales potential. A sales forecast is based on past sales performance and a reckoning of known and anticipated market conditions. From these, the expected sales level is determined.

Sales potential, on the other hand, is a measure of the capacity of the business to reach a certain volume of sales. It is based on knowledge of the market and the extent of competitive influence, and it involves the use of strategy through sales effort. Past sales performance may bear little or no resemblance to sales potential. In general, sales potential is likely to represent a higher sales level than a sales forecast

#### Length of the Forecast

For the purposes of a buy-sell transaction a short-term or at most an intermediate-term forecast is all that should be attempted. Short-term forecasts cover a few months--seldom more than a year. Intermediate-term forecasts should be limited to 1 or 2 years.

#### The Information Needed

Since the forecast is based on past sales of the company, it is necessary to know the dollar sales volume of the firm for the past several years. If not enough sales data have been recorded, it may be necessary to improvise.

In one instance, the prospective buyer of a self-service laundry was unable to get sales figures. He contacted the manufacturer of the washing machines to determine the amount of water used per machine load. He then learned from the water company the amount of water consumed by the business. Using these two figures and making allowances for water used for drinking, rest room, and so on, he computed the number of loads washed per month. This figure multiplied by the price charged per load gave him a reasonably accurate figure for the sales volume.

#### Short-Term Sales Forecasting

For a short-term forecast, it is usually enough to know the sales for the past few weeks or months in comparison with the corresponding period of the year before. If sales for the past 4 weeks were 8 percent more than the corresponding 4 weeks of the preceding year, sales for the next few weeks can reasonably be expected to be 8 percent ahead of the corresponding period a year ago.

Adjustments have to be made, of course, for any known or predicted conditions that will change this rate of increase--conditions such as unusual weather, short-lived labor disputes, changes in the dates of events such as Easter, and so on.

Distribution of sales by months. A longer method of forecasting is based on the distribution of sales by months. This method works best if the monthly variations over a period of years have been small.

Suppose, for instance, that a short-term forecast is being made in June. For the past several years, sale in July have been between 11 and 13 percent of annual sales, with an average of 12.5 percent. During the same period, May sales have averaged 10 percent of annual sales. Sales during the May just past were \$16,000. Then  $\$16,000 \div .10 = \$160,000$ , the estimated annual sales. Projected sales for July will be 12.5 percent of \$160,000, or \$20,000. Sales for other months can be forecast in the same way.

Cumulative percents. Another method of short-term forecasting is the cumulative-percent method. The percent of total sales is figured for each week during the past year and added to the percent for preceding weeks, as shown in this example:

Weeks	Weekly percent	Cumulative percent
1	.9	.9
2	1.1	2.0
3	1.4	3.4
4	1.7	5.1
5	1.9	7.0

6	2.4	9.4
7	2.6	12.0
8	2.9	14.9
9	3.1	18.0

If sales during the first 4 weeks amount to \$8,000, the annual total will be estimated at \$8,000 div. by .51, or \$156,682. To forecast sales for the next 4 weeks, add the percentages for those weeks and multiply the annual estimate by the result (\$156,862 div. by .098 = \$15,372). This method works best for goods or services that are not subject to wide variations in sales volume and whose prices do not fluctuate greatly.

Number of sales transactions. Where prices tend to vary, the number of sales transactions may show a steadier trend than dollar sales do. An increase in dollar sales without an increase in the number of transactions means that the average dollar value per transaction has gone up. This increase in the amount of the average sale may mean (1) that customers are buying higher-quality goods, (2) that they are buying in larger quantities, or (3) that prices have increased.

If the level of transactions is steadier than the dollar sales, the forecast tends to be more conservative. A study of the transactions may bring to light factors not revealed by total dollar sales.

#### Intermediate-Term Sales Forecasting

Because of the combination of variables at work in the market, the techniques used in the short-term forecast are not reliable when applied to the longer periods covered by intermediate-term forecasting. In the longer forecast, two methods of measurement are generally used: the long-term trend method and the correlation method. Correlation analysis requires data usually beyond the reach of the small businessman, but the long-term trend as determined by the least squares method may be useful. This method will not be taken up here, but an explanation of its use can be found in any introductory book on statistical methods.

#### Effect of Changing Market Factors

It must be reemphasized that a trend is determined from past data and from the total market as reflected in company sales. Insofar as these conditions remain in about the same state of balance, a projection of the trend into the future has some value; but the more dynamic these market factors are, the less reliable trend lines become.

The investigator must give careful thought to how changing market factors will affect his forecast. Although he cannot have precise knowledge of these factors, he must decide how influential they are likely to be and adjust his forecast accordingly.

#### Conclusions on Forecasting

The reliability of a forecast is always uncertain. Past performance is no guarantee of the future. The basic value in making a forecast is that it forces the buyer or seller to look at the future objectively. A forecast does not eliminate the need for value judgments, but it does require the forecaster to identify elements influencing the future. It may act as a damper on the buyer's unbounded faith in his own managerial ability.

#### OVERCOMING START-UP BLUES

Most small business owners who have managed to survive the proverbial first 2 years in business probably started out thinking mail order was an easy business to get into. Chances are the experience would have been a fun-filled nightmare they may not want to experience again. Sure, it was full of fantasy and hope. But it also means a lot of hard work and long hours.

When trying to figure out where you want to take your business financially, it is common for entrepreneurs to extrapolate numbers based on their advertising budget. This style is perennial among mail order people who equate advertising as the foundation of their operations.

This approach sounds very logical and statistical, but it doesn't happen like that in the "real world" of mail order! Well, maybe once in a blue moon, but most of the time - it just don't happen. It's not always because your offer is bad or the price is too high. And it's not always because your mailing list was bad. Often times, the reason lies in the fact that you and your company are unknown.

But one of the most important reasons this statistical data only works well on paper is that most beginners are not skilled in the area of TARGET MARKETING. Yes - that word is vital to the money your business will make.

Target marketing is the process of focusing on a select and specific group of people you are advertising to. And it has everything to do with the product you are selling.

For example, if you are marketing infant products, it would be very unwise to stage a direct mail campaign on a random list.

How many times have you got a mailing that went in the trash just because

it was selling a product or service you have no interest in? See what I mean.

If the company mailing these catalogs and advertisements would have pre-qualified you or I and target-marketed their items correctly - we would

have never received them. It is wasted money for the company!

But how can you pre-quality or target market your audience before placing

an ad? If you are a beginner, it will take some time before you are experienced enough to do so. However, you can always get a sample copy of the publication first and see what items other people are advertising.

Then, test your ads in the smaller mail order publication that offer low-cost advertising until you refine your ad and hit the right market. As soon as you begin generating responses to your ads, keep in contact with these customers and grow from there. They will bring you more customers

like themselves because "birds of a feather flock together."

Therefore - SLOW DOWN a little - but if you don't slow down, you could easily get ripped-off

and lose a lot of money. Just like attending college - you won't get a Master's Degree the same day you begin classes. It takes 3-4 years!

Take your time to get to know some of the pros and read what they have to

say. Survey and study the market. Read and educate yourself by investing time into study. Start out in mail order like you would start working for

any company - at the bottom. Learn the tricks of the trade. Make friends and associates with "good" dealers and stick with them. Honor your word and

work dealerships to the advantage of yourself as well as others.

Mail order is only a process by which products are advertised and delivered

to consumers. It works for any product and works for anybody. You don't have

to be rich, educated or a certain age, color or heritage. You don't have to

wear certain kinds of clothes or have your hair styled in the latest craze.

The only limitations are your own abilities and confidence in yourself.

I know because I started out really poor and brought my business up to a thriving, self-supporting home business!

#### HOW SMALL BUSINESSES AFFECT OUR ECONOMY

Very few of us are aware of the contribution small businesses make to the

American economy. According to the Small Business Administration, in 1988,

the United States had approximately 19 million businesses. Of those, 15.7

million were operated as sole proprietorships - the businesses that traditionally train the work force by employing young people in their first

jobs and women returning to the work force in local or part-time jobs.

Of the remaining 3.3 million corporations and partnerships, a full 99.8% employ fewer than 500 people and are classified as small businesses for Small Business Administration programs. And of the 10.5 million jobs created in the private sector between 1980 and 1986, 6.6 million (or 63.5%) were created by small business!

Since people who own and operate their own business take "pride" in their work, it is common for their quality and efficiency to be much higher. In many cases small businesses are known for providing their customers personalized and customized, high-quality products and services.

Just compare a "temp help" in a big company with an independent home-business owner. If a temporary is hired for 40 hours per week, he or she may not give the customer-company 40 hours in production. Part of those 40 hours is spent on orientation, gathering office supplies, getting the computer turned on and paper loaded, etc.) This breaks down the actual time spent working and producing for the company to about 25 hours, with 15 hours lost per week through no fault of your (or their) own.

However, the home worker is different. The home worker will charge for time actually spent on the job. If you produce 10 pages of text at a price of \$4 per page, you would charge \$40 for the completed job. The company does not pay you per hour, but for the amount of work you complete. This saves the company money - and we mean BIG money. Now all you have to do is convince the larger companies of this concept and your business at home will flourish!

There is only one drawback to being in a small business. People do not take you seriously at first. Companies will try and take advantage of you when you are not established. Why? Because they know you need the business and they want to continue receiving "something for nothing."

If you could purchase a higher-quality product from a small business for \$15, why would you go to the mall and purchase a lower-quality version for \$60? There are many small businesses that design crafts that could never be purchased in a store. These crafts show human pride and quality that could never be mass produced. But why do people continue paying for lower quality at a higher price? Is it the money-back guarantee? No, because the toys you purchase at premium rates around Christmas time normally break and are destroyed by December 26. Do you return them? Most people don't, so what good is a money-back guarantee?

And wouldn't a hand-crafted product withstand more abuse than it's store-bought counterpart? So what if you have to make your purchase at someone's place of residence? Don't they offer a money-back guarantee also and wouldn't they be easier to locate if you did want a refund? Wouldn't all this be much more personable than a mall with 1,000's of screaming people fighting you to the next Blue Light special?

Larger businesses will try and take advantage of smaller companies. Why? Who knows. If youI had to pay \$80 per hour to have yoiur computer serviced by IBM, but you knew a small business owner could do the same job for \$25 per hour, you'd be more than happy to pay the small business their \$25.

#### SMALL BUSINESS HANDBOOK: LAWS, REGULATIONS AND TECHNICAL ASSISTANCE SERVICES

##### Read This First

This Handbook on the basic regulations and related services administered by the Department of Labor (DOL) is designed primarily for small businesses in general industry. It begins with a general overview of DOL requirements. This is followed by ten sections containing information on the specific laws and regulations. Read the overview first to find out which requirements apply to your business. For each requirement the overview refers to specific sections or to a DOL office. Employers in certain industries (such as agriculture and mining) or employers working on government contracts should contact the referenced DOL offices for further information and assistance.

Each section discusses: covered employers; basic provisions and requirements; how to obtain information and assistance from DOL; penalties for non-compliance; and relation to state, local and other federal laws. The section subtitles identify the applicable laws and the associated regulations, which can be found in the Code of Federal Regulations (CFR). Many sections refer to an appendix which provides additional addresses and phone numbers for obtaining DOL assistance.

You should be aware that other federal agencies besides DOL enforce laws and regulations that affect employers. For example, statutes designed to ensure non-discrimination in employment are generally enforced by the Equal Employment Opportunity Commission. Also, the Taft-Hartley Act regulating employer conduct with regard to employees in a wide range of areas is administered by the National Labor Relations Board. Please consult these agencies for further information on their requirements.

The information contained in this publication is not to be considered a substitute for any provisions of the laws enforced by the Department of Labor or for any regulations issued by the Department.

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OVERVIEW: Major Statutes and Regulations Administered by the  
Department of Labor

## I. Requirements Applicable to Most Employers

### Wages and Hours

The Fair Labor Standards Act (FLSA) prescribes minimum wage and overtime pay (and record-keeping) standards affecting most private and public employment, including homework. This is administered by the Wage and Hour Division of DOL's Employment Standards Administration (ESA).

1. The Minimum Wage and Overtime provisions of the FLSA require the following  
from employers of covered employees who are not otherwise exempt:

Pay covered employees a minimum wage of not less than \$4.25 an hour effective April 1, 1991. (Employers may pay employees on a piece-rate basis and under some circumstances consider the tips of employees as part of their wages.)

Until March 31, 1993, employers may pay a training wage, under

certain conditions, of at least 85 percent of the minimum wage (but not less than \$3.35 an hour) for up to 90 days to employees under age 20.

While not placing a limit on the total hours which may be worked, the Act requires that covered employees, unless otherwise exempt, be paid not less than one and one-half times their regular rates of pay for all hours worked in excess of 40 in a workweek.

2. Homework requirements of the FLSA generally prohibit the performance of certain types of work in an employee's home unless the employer has obtained prior certification from the Department of Labor.

See Section 1, page 11, for more detail on wages and hours.

Who May Work, and When (administered by the Wage and Hour Division)

1. Child Labor provisions of the FLSA (Non-agriculture) include restrictions on the hours of work and occupations for youths under age 16, and these provisions set forth 17 hazardous occupations orders for jobs declared by the Secretary of Labor to be too dangerous for minors under age 18 to perform.

See Section 2, page 17, for more detail.

2. Immigrant Labor is regulated by the Immigration and Nationality Act (INA).

Under the INA, employers may legally hire workers only if they are citizens of the U.S. or aliens authorized to work in the United States. The INA requires that employers verify the employment eligibility of all individuals hired after November 6, 1986.

See Section 3, page 20, for more detail.

The Immigration Nursing Relief Act of 1989 (INRA) was enacted to provide relief for the shortage of registered nurses by legalizing current nonimmigrant registered nurses and ensuring employer efforts to attract and develop more U. S. employees to the nursing profession. Contact your local ESA Wage and Hour Division office for more details (see page 54).

Workplace Safety and Health

The Occupational Safety and Health Act (OSH Act), which is administered by DOL's Occupational Safety and Health Administration (OSHA) regulates safety and health conditions in most private industries (except those regulated under other federal statutes, e.g., transportation). Many private employers are regulated through states operating under OSHA-approved plans.

It is the responsibility of employers to become familiar with standards applicable to their establishments, to eliminate hazardous conditions to the extent possible, and to comply with the standards. Compliance may include assuring that employees have and use personal protective equipment when required for safety or health. Employees must comply with all rules and regulations that are applicable to their own actions and conduct.

Covered employers are required to maintain workplaces that are safe

and healthful, including meeting many regulatory requirements. OSHA promulgates safety and health standards, and makes distinctions by type of industry.

Safety standards include regulations covering hazards such as falls, explosions, electricity, fires, and cave-ins, as well as machine and vehicle operation and maintenance, etc. Health standards regulate exposures to a variety of health hazards through engineering controls, the use of personal protective equipment (e.g., respirators, ear protection etc.), and work practices.

Where OSHA has not promulgated a specific standard, employers are responsible for complying with the OSH Act's "general duty" clause [Section 5(a)(1)], which states that each employer "shall furnish . . . a place of employment which is free from recognized hazards that are causing or are likely to cause death or serious physical harm to his employees."

When OSHA develops effective safety and health regulations, safety and health regulations originally issued under the following laws administered by the Department of Labor are superseded: the Walsh-Healey Act, the Service Contract Act, the Contract Work Hours and Safety Standards Act, the Arts and Humanities Act, and the Longshore and Harbor Workers' Compensation Act.

See Section 4, page 22, for more detail.

#### Pensions and Welfare Benefits

The Employee Retirement Income Security Act (ERISA) regulates employers who have pension or welfare benefit plans. This statute preempts many state laws in this area and is administered by DOL's Pension and Welfare Benefits Administration (PWBA). The statute also provides an insurance mechanism to protect retirement benefits with employers required to pay annual pension benefit insurance premiums to the Pension Benefits Guarantee Corporation (PBGC), which is associated with the Department.

1. Pension Plans must meet a wide range of fiduciary and reporting and disclosure requirements, with regulations defining such concepts as the value of plan assets, what is adequate consideration for the sale of assets, the effects of participants having control over the assets in their plans, etc.

2. Welfare Benefit Plans also must meet a wide range of fiduciary, reporting, and disclosure requirements. In addition, PWBA administers the disclosure and notification requirements for the continuation of health care provisions that were enacted as part of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). These provisions cover group health plans of employers with 20 or more employees on a typical business day in the previous calendar year. COBRA gives participants and beneficiaries an election to maintain, at their own expense, coverage under the employer's health plan.

See Section 5, page 36, for more detail.

3. Pension Insurance information can be obtained from the Pension Benefits Guarantee Corporation by writing PBGC, Coverage and Inquiries Branch (25440), 2020 K Street, N.W., Washington, D.C.

20006-1860, or by calling (202) 778-8800.

#### Miscellaneous Requirements for Most Employers

1. The Labor-Management Reporting and Disclosure Act (also known as the Landrum-Griffin Act, LMRDA) deals with the relationship between a union and its members. It provides for safeguarding of union funds, reporting and disclosure of financial transactions, and administrative practices of union officials, labor consultants, etc. This is administered by DOL's Office of Labor-Management Standards (OLMS).

Call your local OLMS office for more detail (see page 65).

2. Employee Protection provisions are built into most labor and public safety statutes, e.g., the FLSA, the OSH Act, ERISA, many environmental protection statutes, etc. These protect employees who exercise their rights

under these Acts to complain about employers, ask for information, etc. (remedies can include back wages and reinstatement.) They are normally enforced by the DOL agency most concerned, e.g., OSHA enforces those arising under the OSH Act. For more information on employee protection under a statute administered by DOL, see the relevant section. For information on employee protection in the environmental context, see Section 6, page 42, for more detail.

3. Veteran's Reemployment Rights ensures that those who serve in the armed

forces have a right to reemployment with the employer they were with when they went in service, including protection for those called up from the reserves

or National Guard. These are administered by DOL's Office of the Assistant Secretary for Veterans' Employment and Training. See

Section 7, page 44, for more detail.

4. Plant Closings and Layoffs by employers may be subject to the Worker Adjustment and Retraining Notification Act (WARN) which provides for early

warning to employees of the proposed layoffs or plant closings.

Questions on

WARN may be addressed to DOL's Employment and Training Administration (ETA).

See Section 8, page 46, for more detail.

5. The Employee Polygraph Protection Act (EPPA) prohibits most use of lie

detectors by employers on their employees. This is administered by the Wage

and

Hour Division of ESA.

See Section 9, page 48, for more detail.

6. Garnishment of Wages by employers is subject to regulation under the Consumer Credit Protection Act. This is administered by the Wage and Hour

Division of ESA.

See Section 10, page 50, for more detail.

## II. Requirements Applicable to Employers Because of the Receipt of Government Contracts, Grants, or Financial Assistance

### 1. Wage, Hour, and Fringe Benefit Standards

are determined for these contracts under: the Davis-Bacon and related Acts (for construction); the Contract Work, Hours, and Safety Standards Act; the McNamara-O'Hara Service Contract Act (for services); and the Walsh-Healey Public Contracts Act (for manufacturing). The Wage and Hour Division of ESA both makes the determination of wages and benefits and enforces them. Contact your local ESA Wage and Hour Division Office for more detail (see page 54).

2. Safety and Health Standards are also issued under these Acts and are specifically applicable to covered contracts. Contact your local ESA Wage and Hour Division Office for more detail (see page 54).

3. Non-discrimination and Affirmative Action Requirements are set under Executive Order 11246, Section 503 of the Rehabilitation Act, and the Vietnam Veteran's Readjustment Assistance Act (38 U.S.C. 4212). These programs prohibit discrimination and require affirmative action with regard to race, sex, ethnicity, religion, disability and veterans' status. They are administered by ESA's Office of Federal Contract Compliance Programs (OFCCP). OFCCP works closely with EEOC to coordinate these efforts. Contact your local ESA Office of Federal Contract Compliance Programs for more detail (see page 57).

## III. Industry-Specific Requirements in Addition to the Above

### Agriculture

Several safety and health standards issued and enforced by OSHA (e.g., field sanitation) and the Environmental Protection Agency (e.g., pesticides) apply to this industry. In addition, several agriculture-specific programs are administered by ETA and ESA's Wage and Hour Division. For more information on these programs, contact your local ESA office (see page 54).

1. The Migrant and Seasonal Agricultural Worker Protection Act (MSPA) requires that covered farm labor contractors, agricultural employers and agricultural associations comply with worker protection applicable to migrant and seasonal agricultural workers whom they recruit, solicit, hire, employ, furnish or transport or, in the case of migrant agricultural workers, to whom they provide housing.

2. The Immigration and Nationality Act (INA) requires that employers wishing to use nonimmigrant workers for temporary agricultural employment apply with the Employment and Training Administration for a labor certificate showing that there are not sufficient workers in the U.S. able, willing, qualified and available to do the work and that employment of such nonimmigrant workers will not adversely affect the wages and working conditions of workers in the U.S.

3. INA as Amended by the Immigration Reform and Control Act requires all employers of special and replenishment agricultural workers (SAWs and RAWs) to provide certain information on the use of such workers to the federal government.

4. The Fair Labor Standards Act (FLSA) contains special child labor regulations applicable to agricultural employment. The regulations administered and enforced by the DOL agencies apply only to those establishments with employees (e.g., they do not apply to family-run and family-operated farms that do not hire outside workers).

Additionally, in some cases there are minimum employment standards which must be met before an establishment is covered by a regulation (e.g., OSHA's field sanitation standard is not enforced at establishments that employ fewer than 11 workers in the field).

#### Mining Safety and Health

The goal of the Federal Mine Safety and Health Act of 1977 is to improve working conditions in the nation's mines. Its provisions cover all miners and other persons employed to work on mine property, and it is administered by the Labor Department's Mine Safety and Health Administration (MSHA). This law strengthened an earlier coal mining law and brought metal and nonmetal (non-coal) miners under the same general protections as those afforded coal miners.

Under the Act, the operators of mines, with the assistance of their employees, have the primary responsibility for ensuring the health and safety of the miners. MSHA is responsible for fully inspecting every underground mine at least four times a year and every surface mine at least twice a year to ensure that these responsibilities are met.

This law also established mandatory miners' training requirements and strengthened health protection measures and gassy mine safety programs. It also included tougher civil dollar penalties for safety or health violations by mine operators. The Act also provided for closure of mines in cases of imminent danger to workers or failure to correct violations within the time allowed, and it called for greater involvement of miners and their representatives in processes affecting workers' health than previously had been possible.

Each mine must be legally registered with MSHA. Many mine operators are required to submit plans to MSHA for approval before beginning operations. Such plans must be followed during mining. Required plans cover operational aspects such as ventilation, roof control, and miner training. Mine operators are required to report each individual mine accident or injury to MSHA.

MSHA's Coal Mine Safety and Health Division enforces law and regulations at more than 4,600 underground and surface coal mines. MSHA's Metal and Nonmetal Mine Safety and Health Division enforces federal requirements, conducts training, and assists the mining industry in reducing deaths, serious injuries and illnesses at more than 11,000 non-coal mines (including open pit mines, stone quarries, and sand and gravel operations).

Health and safety regulations cover numerous hazards, including those associated with the following:

exposure to respirable dust, airborne contaminants and noise design, operation and maintenance requirements for mechanical equipment, including mobile equipment roof falls, and rib and face rolls flammable, explosive and noxious gases, dust and smoke

electrical circuits and equipment fires storage, transportation, and use of explosives hoisting access and egress

Contact your local MSHA office for more detail (see page 74).

## Construction

Several DOL agencies are involved in administering programs solely related to the construction industry.

### 1. Safety and Health:

OSHA has separate occupational safety and health standards which apply only to the construction industry.  
See Section 4, page 22, for more detail.

2. Wage and Fringe Benefits: The Davis-Bacon Act and related Acts require most contractors and subcontractors on federally assisted contracts in excess of \$2,000 to pay the prevailing wage rates and fringe benefits as determined by the Secretary of Labor. Contact your local ESA Wage and Hour Division Office for more detail (see page 54).

### 3. Non-discrimination:

OFCCP has special regulations on non-discrimination and affirmative action which apply only to the construction industry.

Contact your local ESA/OFCCP office for more detail (see page 57).

### 4. Anti-Kickback:

The "Anti-Kickback" section of the Copeland Act applies to all contractors and subcontractors performing on any federally funded or assisted contract for the construction, prosecution, completion or repair of any public building or public work -- except contracts for which the only federal assistance is a loan guarantee. This provision precludes a contractor or subcontractor from inducing an employee -- in any manner -- to give up any part of his/her compensation to which he/she is entitled under his/her contract of employment.

Contact your local ESA Wage and Hour Division office for more detail (see page 54).

## Transportation

Many laws with labor provisions in them that affect the transportation industry are administered by agencies outside of the Department. For example, the Railway Labor Act is administered primarily by the Department of Transportation and the Railway Retirement Board. Special DOL programs for this industry are:

### 1. Safety and Health:

Special longshoring and maritime industry standards issued and enforced by OSHA.

See Section 4, page 22, for more detail.

### 2. Longshoring and Harbor Work:

Workers' compensation coverage provided under the Longshore and Harbor Workers' Compensation Act, which is administered by ESA. Employers must meet the coverage, funding, and other requirements needed to provide these benefits.

Contact your local ESA/OWCP office for more detail (see page 77).

#### 1. MINIMUM WAGE AND OVERTIME PAY

Fair Labor Standards Act of 1938, as Amended (Title 29, U.S. Code, Sections 201 et seq.; 29 CFR 510-800).

##### Who is Covered

The Fair Labor Standards Act (FLSA) establishes minimum wage, overtime pay, record-keeping and child labor standards that affect more than 80 million full- and part-time workers in the private sector and in federal, state and local governments.

The Act applies to enterprises that have employees who are engaged in interstate commerce, producing goods for interstate commerce, or handling, selling or working on goods or materials that have been moved in or produced for interstate commerce. For most firms, an annual dollar volume of business test of not less than \$500,000 applies. The following are covered by the Act regardless of their dollar volume of business: hospitals, institutions primarily engaged in the care of the sick, aged, mentally ill or disabled who reside on the premises; schools for children who are mentally or physically disabled or gifted; preschools, elementary and secondary schools and institutions of higher education; and federal, state and local government agencies.

Employees of firms that do not meet the \$500,000 annual dollar volume test may be individually covered in any workweek in which they are individually engaged in interstate commerce, the production of goods for interstate commerce, or an activity which is closely related and directly essential to the production of such goods. Domestic service workers, such as day workers, housekeepers, chauffeurs, cooks or full-time babysitters, are also covered if they receive at least \$50 in cash wages in a calendar quarter from their employers or work a total of more than 8 hours a week for one or more employers.

An enterprise that was covered by the Act on March 31, 1990, and that ceased to be covered because of the increase in the annual dollar volume test to \$500,000, as required under the 1989 amendments to the Act, must continue to pay its employees not less than \$3.35 an hour (the statutory minimum wage prior to 4/1/90) and continues to be subject to the overtime pay, child labor and record-keeping requirements of the Act.

Some employees are excluded from the Act's minimum wage and/or overtime pay provisions under specific exemptions provided in the law. Because these exemptions are generally narrowly defined, employers should carefully check the exact terms and conditions for each by contacting the Wage and Hour Division of the Employment Standards Administration (ESA) at the offices referenced below.

The following are examples of employees exempt from both the minimum wage and overtime pay requirements:



Executive, administrative and professional employees (including teachers and academic administrative personnel in elementary and secondary schools and also including certain skilled computer professionals as provided in P.L. 101-583, November 15, 1990) and outside sales persons

Employees of seasonal amusement or recreational establishments

Employees of certain small newspapers and switchboard operators of small telephone companies

Seamen employed on foreign vessels

Employees engaged in fishing operations

Farm workers employed on small farms (i.e., those that used no more than 500 "man-days" of farm labor in any calendar quarter of the preceding calendar year)

Casual babysitters and persons employed as companions to the elderly or infirm

The following are examples of employees exempt from the Act's overtime pay requirements only:

Certain commissioned employees of retail or service establishments  
Auto, truck, trailer, farm implement, boat or aircraft  
salesworkers, or parts-clerks and mechanics servicing autos, trucks or farm implements, and who are employed by non-manufacturing establishments primarily engaged in selling these items to ultimate purchasers

Railroad and air carrier employees, taxi drivers, certain employees of motor carriers, seamen on American vessels and local delivery employees paid on approved trip rate plans

Announcers, news editors and chief engineers of certain non-metropolitan broadcasting stations

Domestic service workers who reside in their employer's residence

Employees of motion picture theaters

Farmworkers

Certain employees may be partially exempted from the Act's overtime pay requirements. These include:

Employees engaged in certain operations on agricultural commodities and employees of certain bulk petroleum distributors  
Employees of hospitals and residential care establishments which have agreements with the employees to work a 14-day work period in lieu of a 7-day workweek if the employees are paid overtime premium pay within the requirements of the Act for all hours worked over 8 in a day or 80 in the 14-day work period, whichever is the greater number of overtime hours

Employees who lack a high school diploma or who have not completed the eighth grade may be required by their employer to spend up to 10 hours in a workweek in remedial reading or training in other

basic skills that is not job-specific, as long as they are paid their normal wages for the hours spent in training. Such employees need not be paid overtime premium pay for their training hours.

#### Basic Provisions/Requirements

The Act requires employers of covered employees who are not otherwise exempt to pay these employees a minimum wage of not less than \$4.25 an hour. The increases in the minimum wage mandated by the 1989 amendments to the Act will be phased in on an industry-by-industry basis in Puerto Rico. All Puerto Rican industries must reach the mainland minimum wage by April 1, 1996. Employers may pay employees on a piece-rate basis, as long as they receive at least the equivalent of the required minimum hourly wage rate. Employers of tipped employees, i.e., employees who customarily and regularly receive more than \$30 a month in tips, may consider the tips of these employees as part of their wages. This tip credit may not, however, exceed 50 percent of the required minimum wage.

Employers may pay a training wage, under certain conditions, of at least 85 percent of the minimum wage (but not less than \$3.35 an hour) for up to 90 days to employees under age 20, except for migrant or seasonal agricultural workers and H-2A nonimmigrant agricultural workers performing work of a temporary or seasonal nature. An employee who has been paid at the training wage for 90 days can be employed for 90 additional days at the training wage by a different employer if that employer provides on-the-job training in accordance with rules of the Department of Labor. Employers may not displace employees (or reduce their wages or benefits) in order to hire employees at the training wage. These training wage provisions expire on March 31, 1993.

The Act also permits the employment of the following individuals at wage rates below the statutory minimum wage under certificates issued by the Department:

#### Student learners

Full-time students in retail or service establishments, agriculture, or institutions of higher education

Individuals whose earning or productive capacity is impaired by a physical or mental disability, including those related to age or injury, for the work to be performed

While not placing a limit on the total hours which may be worked, the Act requires that covered employees, unless otherwise exempt, be paid not less than one and one-half times their regular rates of pay for all hours worked in excess of 40 in a workweek. Employers are required to keep records on wages, hours and other items as set out in the Department of Labor's regulations. Most of this information is of the type generally maintained by employers in ordinary business practice.

Performance of certain types of work in an employee's home is prohibited under the Act unless the employer has obtained prior certification from the Department of Labor. Restrictions apply in the manufacture of knitted outerwear, gloves and mittens, buttons and buckles, handkerchiefs, embroideries and jewelry (where safety and health hazards are not involved). Employers wishing to employ

homeworkers in these industries are required to, among other things, provide written assurances to the Department that they will comply with the Act's monetary and other requirements. The manufacture of women's apparel (and jewelry under hazardous conditions) is generally prohibited, except under special certificates that allow homework in these industries when the homeworker is unable to adjust to factory work because of age or physical or mental disability, or is caring for an invalid in the home.

Special provisions apply to state and local government employment. It is a violation of the Act to fire or in any other manner discriminate against an employee for filing a complaint or for participating in a legal proceeding under the Act. The Act also prohibits the shipment of goods in interstate commerce which were produced in violation of the minimum wage, overtime pay, child labor, or special minimum wage provisions.

#### Assistance Available

More detailed information, including copies of explanatory brochures and regulatory and interpretative materials, may be obtained by contacting the offices listed beginning on page 53 in the appendix.

#### Penalties

Enforcement of the Act is carried out by Wage and Hour Division compliance officers stationed throughout the country. A variety of remedies are available to the Department to enforce compliance with the Act's requirements. When compliance officers encounter violations, they recommend changes in employment practices in order to bring the employer into compliance. Willful violations may be prosecuted criminally and the violators fined up to \$10,000. A second conviction may result in imprisonment. Employers who willfully and repeatedly violate the minimum wage or overtime pay requirements are subject to civil money penalties of up to \$1,000 per violation. Employers are subject to a civil money penalty of up to \$10,000 for each employee employed in violation of the child labor provisions. When a civil money penalty is assessed, employers have the right, within 15 days of receipt of the notice of such penalty, to file an exception to the determination. When an exception is filed, it is referred to an administrative law judge for a hearing and determination as to the appropriateness of the penalty. If an exception is not filed, the penalty becomes final.

The Secretary of Labor may also bring suit for back pay and an equal amount in liquidated damages and obtain injunctions to restrain persons from violating the Act. Employees may also bring suit, where the Department has not done so, for back pay and liquidated damages, as well as attorney's fees and court costs.

#### Relation to State, Local and Other Federal Laws

State laws also apply to employment subject to this Act. When both this Act and a state law apply, the law setting the higher standards must be observed.

## 2. CHILD LABOR (Nonagriculture)

Fair Labor Standards Act of 1938, as Amended (Title 29, U.S. Code, Section 201 et seq.; 29 CFR 570-580).

#### Who is Covered

The child labor provisions of the Fair Labor Standards Act (the Act) are designed to protect the educational opportunities of youths and prohibit their employment in jobs and under conditions detrimental to their health and well-being.

In nonagriculture, the child labor provisions apply to enterprises that have employees who are engaged in interstate commerce, producing goods for interstate commerce, or handling, selling or working on goods or materials that have been moved in or produced for interstate commerce. For most firms, an annual dollar volume of business test of not less than \$500,000 applies. The following are covered by the Act regardless of their dollar volume of business: hospitals; institutions primarily engaged in the care of the sick, aged, mentally ill or disabled who reside on the premises; schools for children who are mentally or physically disabled or gifted; preschools, elementary and secondary schools and institutions of higher education; and federal, state and local government agencies. Employees of firms that do not meet the \$500,000 annual dollar volume test may be individually covered in any workweek in which they are individually engaged in interstate commerce, the production of goods for interstate commerce or an activity which is closely related and directly essential to the production of such goods. Domestic service workers, such as day workers, housekeepers, chauffeurs, cooks or full-time babysitters, are also covered if they receive at least \$50 in cash wages in a calendar quarter from their employers or work a total of more than 8 hours a week for one or more employers.

An enterprise that was covered by the Act on March 31, 1990, and ceased to be covered because of the increase in the annual dollar volume test to \$500,000 as required under the 1989 amendments to the Act, remains subject to the Act's child labor provisions. Sixteen is the minimum age for most nonfarm work. However, youths may, at any age: deliver newspapers; perform in radio, television, movies, or theatrical productions; work for their parents in their solely owned nonfarm businesses (except in mining, manufacturing, or in any other occupation declared hazardous by the Secretary of Labor); or gather evergreens and make evergreen wreaths.

#### Basic Provisions/Requirements

The Act's child labor provisions include restrictions on the hours of work and occupations for youths under age 16. These provisions set forth 17 hazardous occupations orders for jobs declared by the Secretary of Labor to be too dangerous for minors under age 18 to perform. The Act prohibits the shipment of goods in interstate commerce which were produced in violation of the child labor provisions. It is also a violation of the Act to fire or in any other manner discriminate against an employee for filing a complaint or for participating in a legal proceeding under the Act. The permissible jobs and hours of work, by age, in nonfarm work are as follows:

Youths 18 years or older may perform any job for unlimited hours  
Youths age 16 and 17 may perform any job not declared hazardous by the Secretary of Labor, for unlimited hours

Youths age 14 and 15 may work outside school hours in various nonmanufacturing, nonmining, nonhazardous jobs under the following conditions: no more than 3 hours on a school day, 18 hours in a school week, 8 hours on a nonschool day, or 40 hours in a nonschool week. In addition, they may not begin work before 7 a.m. nor work after 7 p.m., except from June 1 through Labor Day, when evening hours are extended until 9 p.m. Youths aged 14 and 15 who are enrolled in an approved Work Experience and Career Exploration Program (WECEP) may be employed for up to 23 hours in school weeks and 3 hours on school days (including during school hours). Detailed information on the occupations determined to be hazardous by the Secretary is available by contacting the Wage and Hour Division at the offices listed below.

Department of Labor regulations require employers to keep records of the date of birth of employees under age 19, including daily starting and quitting times, daily and weekly hours worked, and the employee's occupation.

Employers may protect themselves from unintentional violation of the child labor provisions by keeping on file an employment or age certificate for each youth employed to show that the youth is the minimum age for the job. Certificates issued under most state laws are acceptable for this purpose.

#### Assistance Available

More detailed information, including copies of explanatory brochures and regulatory and interpretative materials, may be obtained by contacting the offices listed beginning on page 53 in the appendix.

#### Penalties

Employers are subject to a civil money penalty of up to \$10,000 for each employee employed in violation of the child labor provisions. When a civil money penalty is assessed, employers have the right, within 15 days of receipt of the notice of such penalty, to file an exception to the determination. When an exception is filed, it is referred to an administrative law judge for a hearing and determination as to the appropriateness of the penalty. Either party may appeal the decision of the administrative law judge to the Secretary of Labor. If an exception is not timely filed, the penalty becomes final. The Act also provides, in the case of a conviction for a willful violation, for a fine of up to \$10,000; or, for a second offense committed after the conviction of such person for a similar offense, for a fine of not more than \$10,000 and imprisonment for up to six months, or both. The Secretary of Labor may also bring suit to obtain injunctions to restrain persons from violating the Act.

#### Relation to State, Local and Other Federal Laws

Many states have child labor laws. When both this Act and a state law apply, the law setting the higher standards must be observed.

### 3. EMPLOYMENT ELIGIBILITY OF ALIEN WORKERS

Immigration and Nationality Act (INA) (8 U.S. Code, Section 1186).

#### Who is Covered

The Immigration and Nationality Act (INA) employment eligibility verification and related nondiscrimination provisions apply to all employers.

#### Basic Provisions/Requirements

Under the INA, employers may legally hire workers only if they are citizens of the U.S. or aliens authorized to work in the United States. For some aliens (students, nurses, "specialty occupations," fashion models) employers must comply with attestation procedures through the Department of Labor. The INA requires that employers verify the employment eligibility of all individuals hired after November 6, 1986. To do so, employers must require applicants to show proof of their employment eligibility, by requiring completion of the I-9 form. Employers must keep I-9s on file for at least 3 years (or one year after employment ends, whichever is greater). The INA also protects U.S. citizens, and aliens authorized to accept employment in the U.S., from discrimination in hiring or discharge on the basis of national origin and citizenship status.

#### Assistance Available

More detailed information, including copies of explanatory brochures and regulatory and interpretative materials, may be obtained by contacting the offices listed beginning on page 53 in the appendix.

#### Penalties

Employers who fail to complete and/or retain the I-9 forms are subject to civil fines of up to \$1,000 per applicant. Enforcement of the INA requirements on employment eligibility verification comes under the jurisdiction of the Immigration and Naturalization Service (INS). The Justice Department is responsible for enforcing the anti-discrimination provisions. In conjunction with their ongoing enforcement efforts, the Employment Standards Administration's Wage and Hour Division and Office of Federal Contract Compliance Programs conduct inspections of the I-9 forms. Their findings are reported to the INS and to the Department of Justice where there is apparent disparate treatment in the verification process.

Relation to State, Local and Other Federal Laws  
Not Applicable.

#### 4. OCCUPATIONAL SAFETY AND HEALTH

The Occupational Safety and Health Act of 1970 (OSH Act), 29 U.S.C. 651 et seq.; Title 29 Code of Federal Regulations, Parts 1900 to end.

#### Who is Covered

In general, coverage of the Act extends to all employers and their employees in the 50 states, the District of Columbia, Puerto Rico, and all other territories under federal government jurisdiction. Coverage is provided either directly by the Federal Occupational Safety and Health Administration (OSHA) or through an OSHA-approved state job safety and health program.

As defined by the Act, an employer is any "person engaged in a business affecting commerce who has employees, but does not include the United States or any state or political subdivision of a State." Therefore, the Act applies to employers and employees in such varied fields as manufacturing, construction, longshoring, agriculture, law and medicine, charity and disaster relief, organized labor and private education. Such coverage includes religious groups to the extent that they employ workers for secular purposes.

The following are not covered by the Act:  
Self-employed persons

Farms at which only immediate members of the farmer's family are employed

Working conditions regulated by other federal agencies under other federal statutes. This category includes most employment in mining, nuclear energy and nuclear weapons manufacture, and many segments of the transportation industries.

When another federal agency is authorized to regulate safety and health working conditions in a particular industry, if it does not do so in specific areas, then OSHA requirements apply.

As OSHA develops effective safety and health regulations of its own, safety and health regulations originally issued under the following laws administered by the Department of Labor are superseded: the Walsh-Healey Act, the Service Contract Act, the Contract Work Hours and Safety Standards Act, the Arts and Humanities Act, and the Longshore and Harbor Workers' Compensation Act.

#### Basic Provisions/Requirements

The Act assigns to OSHA two principal functions: setting standards and conducting workplace inspections to assure employers are complying with the standards and providing a safe and healthful workplace. OSHA standards may require conditions, or the adoption or use of one or more practices, means, methods or processes reasonably necessary and appropriate to protect workers on the job. It is the responsibility of employers to become familiar with standards applicable to their establishments, to eliminate hazardous conditions to the extent possible, and to comply with the standards. Compliance may include assuring that employees have and use personal protective equipment when required for safety or health. Employees must comply with all rules and regulations that are applicable to their own actions and conduct.

Where OSHA has not promulgated a specific standard, employers are responsible for complying with the OSH Act's "general duty" clause. The general duty clause of the Act [Section 5(a)(1)] states that each employer "shall furnish . . . a place of employment which is free from recognized hazards that are causing or are likely to cause death or serious physical harm to his employees."

States with OSHA-approved job safety and health programs must set standards that are at least as effective as the equivalent federal standard. Many state-plan states adopt standards identical to the federal ones.

## Federal OSHA Standards

These fall into four major categories: general industry (29 CFR 1910), construction (29 CFR 1926), maritime - shipyards, marine terminals, longshoring - (29 CFR 1915-19), and agriculture (29 CFR 1928).

Each of these four categories of standards imposes requirements that are, in some cases, identical for each category of employers; in others, they are either absent or vary somewhat.

Among the standards that impose similar requirements on all industry sectors are those for access to medical and exposure records, personal protective equipment, and hazard communication. Access to Medical and Exposure Records: This standard requires that employers grant employees access to any of their medical records maintained by the employer and to any records the employer maintains on the employees' exposure to toxic substances.

Personal Protective Equipment: This standard, included separately in the standards for each industry segment (except agriculture) requires that employers provide employees, at no cost to employees, with personal protective equipment designed to protect them against certain hazards. This can range from protective helmets in construction and cargo handling work to prevent head injuries, to eye protection, hearing protection, hard-toed shoes, special goggles (for welders, for example) and gauntlets for iron workers.

Hazard Communication: This standard requires that manufacturers and importers of hazardous materials conduct a hazard evaluation of the products they manufacture or import. If the product is found to be hazardous under the terms of the standard, containers of the material must be appropriately labeled and the first shipment of the material to a new customer must be accompanied by a material safety data sheet (MSDS). Receiving employers must train their employees, using the MSDSs they receive, to recognize and avoid the hazards the materials present.

In general, however, all employers should be aware that any hazard not covered by an industry-specific standard may be covered by a general industry standard or by the general duty clause. This coverage becomes important in the enforcement aspects of OSHA's work.

Other types of requirements are imposed by regulation rather than by a standard. OSHA regulations cover such items as record-keeping, reporting and posting.

Record-keeping: Every employer covered by OSHA who has more than 10 employees must maintain OSHA-specified records of job-related injuries and illnesses. There are two such records, the OSHA Form 200 and the OSHA Form 101.

The OSHA Form 200 is an injury/illness log, with a separate line entry for each recordable injury or illness (essentially those work-related deaths, injuries and illnesses other than minor injuries that require only first aid treatment and that do not involve medical treatment, loss of consciousness, restriction of work or motion, or transfer to another job). A summary section of the OSHA Form 200, which includes the total of the previous year's



injury and illness experience, must be posted in the workplace for the entire month of February each year.

The OSHA Form 101 is an individual incident report that provides added detail about each individual recordable injury or illness. A suitable insurance or worker compensation form that provides the same details may be substituted for the OSHA Form 101.

Unless an employer has been selected in a particular year to be part of a national survey of workplace injuries and illnesses conducted by the Department of Labor's Bureau of Labor Statistics (BLS), employers with ten or fewer employees or employers in traditionally low-hazard industries are exempt from maintaining these records; all employers selected for the BLS survey must maintain the records. Employers so selected will be notified before the end of the year to begin keeping records during the coming year, and technical assistance on completing these forms is available from the state offices which select these employers for the survey.

Industries designated as traditionally low hazard include: automobile dealers; apparel and accessory stores; furniture and home furnishing stores; eating and drinking places; finance, insurance, and real estate industries; and service industries, such as personal and business services, legal, educational, social and cultural services and membership organizations.

**Reporting:** In addition to selected employers each year being required to report their injury and illness experience, each employer, regardless of number of employees or industry category, must report to the nearest OSHA office within 48 hours any accident that results in one or more fatalities or hospitalization of five or more employees. Such accidents are often investigated by OSHA to determine whether violations of standards contributed to the event.

#### Workplace Inspections

To enforce its standards, OSHA is authorized under the Act to conduct workplace inspections. Every establishment covered by the Act is subject to inspection by OSHA compliance safety and health officers (CSHOs), who are chosen for their knowledge and experience in the occupational safety and health field. CSHOs are thoroughly trained in OSHA standards and in the recognition of safety and health hazards. Similarly, states with their own occupational safety and health programs conduct inspections using qualified state CSHOs.

#### Employee Rights

Employees are granted several important rights by the Act. Among them are the right to: complain to OSHA about safety and health conditions in their workplace and have their identity kept confidential from the employer, contest the time period OSHA allows for correcting standards violations, and participate in OSHA workplace inspections.

#### Anti-Discrimination Provisions

Private sector employees who exercise their rights under OSHA can be protected against employer reprisal. Employees must notify OSHA within 30 days of the time they learned of the alleged

discriminatory action. This notification is followed by an OSHA investigation. If OSHA agrees that discrimination has occurred, the employer will be asked to restore any lost benefits to the affected employee. If necessary, OSHA can take the employer to court. In such cases, the worker pays no legal fees.

#### Assistance Available

#### Copies of Standards

The Federal Register is one of the best sources of information on standards, since all OSHA standards are published there when adopted, as are all amendments, corrections, insertions or deletions. The Federal Register, published five days a week, is available in many public libraries. Annual subscriptions are available from the Superintendent of Documents, U.S. Government Printing Office (GPO), Washington, DC 20402. For the current price, contact GPO at (202) 783-3238.

Each year the Office of the Federal Register publishes all current regulations and standards in the Code of Federal Regulations (CFR), available at many public libraries and from GPO. OSHA's regulations and standards are collected in several volumes in Title 29 CFR, Parts 1900-1999.

Since states with OSHA-approved job safety and health programs adopt and enforce their own standards under state law, copies of these standards can be obtained from the individual states. Addresses and phone numbers are found beginning on page 60 in the appendix.

#### Training and Education

OSHA's field offices (more than 70) are full-service centers offering a variety of informational services such as publications, technical advice, audio-visual aids on workplace hazards, and lecturers for speaking engagements.

The OSHA Training Institute in Des Plaines, IL, provides basic and advanced training and education in safety and health for federal and state CSHOs; state consultants; other federal agency personnel; and private sector employers, employees and their representatives. Institute courses cover topics such as electrical hazards, machine guarding, ventilation and ergonomics. The Institute facility includes classrooms, laboratories, a library and an audio-visual unit. The laboratories contain various demonstrations and equipment, such as power presses, woodworking and welding shops, a complete industrial ventilation unit, and a noise demonstration laboratory. Sixty-three courses are available for students from the private sector dealing with subjects such as safety and health in the construction industry and methods of voluntary compliance with OSHA standards.

OSHA also provides funds to nonprofit organizations to conduct workplace training and education in subjects where OSHA believes there is a current lack of workplace training. OSHA identifies areas of unmet needs for safety and health education in the workplace annually and invites grant applications to address these needs. The Training Institute is OSHA's point of contact for learning about the many valuable training products and materials developed under such grants.

Organizations awarded grants use funds to develop training and educational programs, reach out to workers and employers for whom their program is appropriate, and provide these programs to employers and employees.

Grants are awarded annually, with a one-year renewal possible. Grant recipients are expected to contribute 20 percent of the total grant cost.

While OSHA does not provide grant materials directly, it will provide addresses and phone numbers of contact persons from whom the public can order such materials for its use. Contact the OSHA Training Institute at (708) 297-4810.

#### Consultation Assistance

Consultation assistance is available to employers who want help in establishing and maintaining a safe and healthful workplace. Largely funded by OSHA, the service is provided at no cost to the employer.

No penalties are proposed or citations issued for hazards identified by the consultant.

The service is provided to the employer with the assurance that his or her name and firm and any information about the workplace will not be routinely reported to OSHA inspection staff.

Besides helping employers identify and correct specific hazards, consultation can include assistance in developing and implementing effective workplace safety and health programs with emphasis on the prevention of worker injuries and illnesses. Limited assistance such as training and education services, is also provided away from the worksite.

Primarily targeted for smaller employers with more hazardous operations, the consultation service is delivered by state government agencies or universities employing professional safety consultants and health consultants. When delivered at the worksite, consultation assistance includes an opening conference with the employer to explain the ground rules for consultation, a walk through the workplace to identify any specific hazards and to examine those aspects of the employer's safety and health program which relate to the scope of the visit, and a closing conference followed by a written report to the employer of the consultant's findings and recommendations.

This process begins with the employer's request for consultation and the commitment to correct any serious job safety and health hazards identified by the consultant. Possible violations of OSHA standards will not be reported to OSHA enforcement staff unless the employer fails or refuses to eliminate or control worker exposure to any identified serious hazard or imminent danger situation. In such unusual circumstances, OSHA may investigate and begin enforcement action.

Employers who receive a comprehensive consultation visit, correct all identified hazards, and demonstrate that an effective safety and health program is in operation may be exempted from OSHA general schedule enforcement inspections (not complaint or accident investigations) for a period of one year. Comprehensive

consultation assistance includes an appraisal of all work practices; mechanical, physical, and environmental hazards in the workplace; and, all aspects of the employer's present job safety and health program.

Additional information concerning consultation assistance, including a directory of OSHA-funded consultation projects, can be obtained by requesting OSHA publication No. 3047, Consultation Services for the Employer.

#### Voluntary Protection Programs

The Voluntary Protection Programs (VPPs) represent one part of OSHA's effort to extend worker protection beyond the minimum required by OSHA standards. These programs, along with others such as expanded on-site consultation services and full-service area offices, are cooperative approaches which, when coupled with an effective enforcement program, expand worker protection to help meet the goals of the Occupational Safety and Health Act of 1970.

The VPPs are designed to:

Recognize outstanding achievement of those who have successfully incorporated comprehensive safety and health programs into their total management system

Motivate others to achieve excellent safety and health results in the same outstanding way

Establish a relationship between employers, employees, and OSHA that is based on cooperation rather than coercion  
OSHA reviews an employer's VPP application and conducts an on-site review to verify that the safety and health program described is in operation at the site. Evaluations are conducted on a regular basis, annually for Merit and Demonstration programs, and triennially for Star. All participants must send their injury information annually to their OSHA regional office. Sites participating in the VPP are not scheduled for programmed inspections; however, any employee complaints, serious accidents or significant chemical releases that may occur are handled according to routine enforcement procedures.

An employer may make application for any VPP at the nearest OSHA regional office. Once OSHA is satisfied that, on paper, the employer qualifies for the program, an onsite review will be scheduled. The review team presents its findings in a written report for the company's review prior to submission to the Assistant Secretary of Labor, who heads OSHA. If approved, the employer receives a letter from the Assistant Secretary informing the site of its participation in the VPP. A certificate of approval and flag are presented at a ceremony held at or near the approved worksite. Star sites receiving reapproval after each triennial evaluation receive plaques at similar ceremonies.

The VPPs described are available in states under federal jurisdiction. Some states with their own safety and health programs have similar programs. Interested companies in these states should contact the appropriate state agency for more information (see list beginning on page 59).

#### Information Sources

Information about state programs, VPP, consultation programs, and inspections can be obtained from the nearest OSHA field office, or from one of the 10 regional OSHA offices listed, beginning on page 63 in the appendix. The listing indicates the states and territories under the jurisdiction of each regional office. Area offices under regional office jurisdiction are listed in local phone directories under U.S. Government listings for the U.S. Department of Labor.

#### Other Sources

A single free copy of an OSHA catalog, OSHA 2019, "OSHA Publications and Audiovisual Programs," may be obtained by mailing a self-addressed mailing label to the OSHA Publications Office, Room N3101, US Department of Labor, Washington, DC 20210; telephone (202) 219-9667. Descriptions of and ordering information for all OSHA publications and audiovisual programs are contained in this catalog.

Questions about OSHA programs, the status of ongoing standards-setting activities, and general inquiries about OSHA may be addressed to the OSHA Office of Information & Consumer Affairs, Room N3637, U.S. Department of Labor, Washington, DC 20210; telephone (202) 219-8151.

Those who are interested in following OSHA activities more closely may be interested in subscribing to OSHA's official magazine, Job Safety & Health Quarterly. Subscription orders may be placed with the Superintendent of Documents, Government Printing Office, Washington, DC 20402; telephone (202) 783-3238. Orders by phone may be charged to VISA or MASTERCARD. Written orders should be accompanied by a check or money order made payable to "Superintendent of Documents" in the amount of \$5.50 (international orders add 25%).

#### Penalties

These are the types of violations that may be cited and the penalties that may be proposed:

**Other-Than-Serious Violation:** A violation that has a direct relationship to job safety and health, but probably would not cause death or serious physical harm. A proposed penalty of up to \$7,000 for each violation is discretionary. A penalty for an other-than-serious violation may be adjusted downward by as much as 95 percent, depending on the employer's good faith (demonstrated efforts to comply with the Act), history of previous violations, and size of business. When the adjusted penalty amounts to less than \$50, no penalty is proposed.

**Serious Violation:** A violation where there is substantial probability that death or serious physical harm could result and that the employer knew, or should have known, of the hazard. A mandatory penalty of up to \$7,000 for each violation is proposed.

A penalty for a serious violation may be adjusted downward, based on the employer's good faith, history of previous violations, the gravity of the alleged violation, and size of business.

**Willful Violation:** A violation that the employer intentionally and knowingly commits. The employer either knows that what he or she is

doing constitutes a violation, or is aware that a hazardous condition existed and has made no reasonable effort to eliminate it.

The Act provides that an employer who willfully violates the Act may be assessed a civil penalty of not more than \$70,000 but not less than \$5,000 for each violation. A proposed penalty for a willful violation may be adjusted downward, depending on the size of the business and its history of previous violations. Usually no credit is given for good faith.

If an employer is convicted of a willful violation of a standard that has resulted in the death of an employee, the offense is punishable by a court-imposed fine or by imprisonment for up to six months, or both. A fine of up to \$250,000 for an individual, or \$500,000 for a corporation [authorized under the Comprehensive Crime Control Act of 1984 (1984 CCA), not the OSH Act], may be imposed for a criminal conviction.

**Repeated Violation:** A violation of any standard, regulation, rule or order where, upon reinspection, a substantially similar violation is found. Repeated violations can bring a fine of up to \$70,000 for each such violation. To be the basis of a repeat citation, the original citation must be final; a citation under contest may not serve as the basis for a subsequent repeat citation.

**Failure to Correct Prior Violation:** Failure to correct a prior violation may bring a civil penalty of up to \$7,000 for each day the violation continues beyond the prescribed abatement date. Additional violations for which citations and proposed penalties may be issued are as follows:

Falsifying records, reports or applications upon conviction can bring a fine of \$10,000 or up to six months in jail, or both. Violations of posting requirements can bring a civil penalty of up to \$7,000.

Assaulting a compliance officer, or otherwise resisting, opposing, intimidating, or interfering with a compliance officer in the performance of his or her duties is a criminal offense, subject to a fine of not more than \$250,000 for an individual and \$500,000 for a corporation (1984 CCA) and imprisonment for not more than three years.

Citation and penalty procedures may differ somewhat in states with their own occupational safety and health programs.

#### Appeals Process

**Appeals by Employees:** If an inspection was initiated due to an employee complaint, the employee or authorized employee representative may request an informal review of any decision not to issue a citation.

Employees may not contest citations, amendments to citations, penalties or lack of penalties. They may contest the time in the citation for abatement of a hazardous condition. They also may contest an employer's Petition for Modification of Abatement (PMA) which requests an extension of the abatement period. Employees must contest the PMA within 10 working days of its posting or within 10

working days after an authorized employee representative has received a copy.

Within 15 working days of the employer's receipt of the citation, the employee may submit a written objection to OSHA. The OSHA area director forwards the objection to the Occupational Safety and Health Review Commission, which operates independently of OSHA. Employees may request an informal conference with OSHA to discuss any issues raised by an inspection, citation, notice of proposed penalty or employer's notice of intention to contest.

**Appeals by Employers:** When issued a citation or notice of a proposed penalty, an employer may request an informal meeting with OSHA's area director to discuss the case. Employee representatives may be invited to attend the meeting. The area director is authorized to enter into settlement agreements that revise citations and penalties to avoid prolonged legal disputes.

**Petition for Modification of Abatement (PMA):** Upon receiving a citation, the employer must correct the cited hazard by the prescribed date unless he or she contests the citation or abatement date. If factors beyond the employer's reasonable control prevent the completion of corrections by that date, the employer who has made a good faith effort to comply may file a PMA for an extended date.

The written petition should specify all steps taken to achieve compliance, the additional time needed to achieve complete compliance, the reasons this additional time is needed, and all temporary steps being taken to safeguard employees against the cited hazard during the intervening period. It should also indicate that a copy of the PMA was posted in a conspicuous place at or near each place where a violation occurred, and that the employee representative (if there is one) received a copy of the petition.

**Notice of Contest:** If the employer decides to contest either the citation, the time set for abatement, or the proposed penalty, he or she has 15 working days from the time the citation and proposed penalty are received in which to notify the OSHA area director in writing. An orally expressed disagreement will not suffice. This written notification is called a "Notice of Contest."

There is no specific format for the Notice of Contest; however, it must clearly identify the employer's basis for contesting the citation, notice of proposed penalty, abatement period, or notification of failure to correct violations.

A copy of the Notice of Contest must be given to the employees' authorized representative. If any affected employees are not represented by a recognized bargaining agent, a copy of the notice must be posted in a prominent location in the workplace, or else served personally upon each unrepresented employee.

#### Appeal Review Procedure

If the written Notice of Contest has been filed within the required 15 working days, the OSHA area director forwards the case to the Occupational Safety and Health Review Commission (OSHRC). The Commission is an independent agency not associated with OSHA or the Department of Labor. The Commission assigns the case to an administrative law judge.

The judge may disallow the contest if it is found to be legally invalid, or a hearing may be scheduled for a public place near the employer's workplace. The employer and the employees have the right to participate in the hearing; the OSHRC does not require that they be represented by attorneys.

Once the administrative law judge has ruled, any party to the case may request a further review by OSHRC. Any of the three OSHRC commissioners also may, at his or her own motion, bring a case before the Commission for review. Commission rulings may be appealed to the appropriate U.S. Court of Appeals.

#### Appeals In State-Plan States

States with their own occupational safety and health programs have a state system for review and appeal of citations, penalties, and abatement periods. The procedures are generally similar to Federal OSHA's, but cases are heard by a state review board or equivalent authority.

#### Relation to State, Local and Other Federal Laws

As discussed above in the section titled "Who is Covered," Federal OSHA has jurisdiction over workplace safety and health issues in all states that do not operate their own OSHA-approved programs. In fact, any occupational safety and health issues regulated by a state that does not have an OSHA-approved program are preempted by OSHA jurisdiction.

The agency also covers all working conditions that are not covered by safety and health regulations of some other federal agency under other legislation. Industries where such regulations frequently apply include most transportation industries (rail, air and highway safety are under the Department of Transportation), nuclear industries (covered either by the Department of Energy or the Nuclear Regulatory commission) and mining (covered by the Department of Labor's Mine Safety and Health Administration, and discussed elsewhere in this publication). OSHA also has the authority to monitor the safety and health of federal employees.

### 5. EMPLOYEE BENEFIT PLANS

Employee Retirement Income Security Act (ERISA), 29 USC §1001 et seq., 29 CFR §2509 et seq.

#### Who is Covered

The provisions of Title I of ERISA are intended to require compliance from most private sector employee benefit plans. Employee benefit plans are voluntarily established and maintained by an employer, an employee organization, or jointly by one or more such employers and the employee organization. Employee benefit plans which are pension plans are established and maintained to provide retirement income or to defer income to termination of covered employment or beyond. Employee benefit plans which are welfare plans are established and maintained to provide, through insurance or otherwise, health benefits, disability benefits, death benefits, prepaid legal services, vacation benefits, day care centers, scholarship funds, apprenticeship and training benefits, or other similar benefits.



In general, ERISA does not cover plans established or maintained by governmental entities or churches for their employees, or plans which are maintained solely to comply with applicable workers compensation, unemployment or disability laws. ERISA also does not cover plans maintained outside the United States primarily for the benefit of nonresident aliens or unfunded excess benefit plans.

#### Basic Provisions/Requirements

ERISA sets uniform minimum standards to assure the equitable character of employee benefit plans and their financial soundness to provide workers with benefits promised by their employers. In addition, employers have an obligation to provide promised benefits

and satisfy ERISA's requirements on managing and administering private pension and welfare plans. The Department's Pension and Welfare Benefits Administration (PWBA), together with the Internal Revenue Service (IRS), carries out its statutory and regulatory authority to assure that workers receive the promised benefits. The Department has principal jurisdiction over Title I of ERISA, which requires persons and entities who manage and control plan funds to: Carry out their duties in a prudent manner and refrain from conflict-of-interest transactions expressly prohibited by law, for the exclusive benefit of participants and beneficiaries Comply with limitations on certain plans' investments in employer securities and properties

Fund benefits in accordance with the law and plan rules  
Report and disclose information on the operations and financial condition of plans to the government and participants  
Provide documents required in the conduct of investigations to assure compliance with the law

The IRS administers Title II of ERISA, which includes vesting participation, discrimination and funding standards.

#### Reporting and Disclosure

Part 1 of Title I requires the administrator of an employee benefit plan to furnish participants and beneficiaries with a summary plan description (SPD), describing in understandable terms, their rights, benefits and responsibilities under the plan. Plan administrators are also required to furnish participants with a summary of any material changes to the plan or changes to the information contained in the summary plan description. Generally, copies of these documents must be filed with the Department. In addition, the administrator must file an annual report (Form 5500 Series) each year containing financial and other information concerning the operation of the plan. Plans with 100 or more participants must file the Form 5500. Plans with fewer than 100 participants file the Form 5500-C at least every third year and may file a Form 5500-R, an abbreviated report, in the two intervening years. The forms are filed with the Internal Revenue Service, which furnishes the information to the Department of Labor. Welfare benefit plans with fewer than 100 participants that are fully insured or unfunded (i.e., benefits are provided exclusively through insurance contracts where the premiums are paid directly from the general assets of the employer or the benefits are paid from the general assets of the employer) are not required to file an annual report under regulations issued by the Department. Plan

administrators must furnish participants and beneficiaries with a summary of the information in the annual report.

The Department's regulations governing reporting and disclosure requirements are set forth at 29 CFR §2520.101-1 et seq.

#### Fiduciary Standards

Part 4 sets forth standards and rules governing the conduct of plan fiduciaries. In general, persons who exercise discretionary authority or control regarding management of a plan or disposition of its assets are "fiduciaries" for purposes of Title I of ERISA. Fiduciaries are required, among other things, to discharge their duties solely in the interest of plan participants and beneficiaries and for the exclusive purpose of providing benefits and defraying reasonable expenses of administering the plan. In discharging their duties, fiduciaries must act prudently and in accordance with documents governing the plan, to the extent such documents are consistent with ERISA. Certain transactions between an employee benefit plan and "parties in interest," which include the employer and others who may be in a position to exercise improper influence over the plan, are prohibited by ERISA. Most of these transactions are also prohibited by the Internal Revenue Code ("Code"). The Code imposes an excise tax on "disqualified persons" -- whose definition generally parallels that of parties in interest -- who participate in such transactions.

#### Exemptions

Both ERISA and the Code contain various statutory exemptions from the prohibited transaction rules and give the Departments of Labor and Treasury, respectively, authority to grant administrative exemptions and establish exemption procedures. Reorganization Plan No. 4 of 1978 transferred the authority of the Treasury Department over prohibited transaction exemptions, with certain exceptions, to the Labor Department.

The statutory exemptions generally include loans to participants, the provision of services necessary for operation of a plan for reasonable compensation, loans to employee stock ownership plans, and investment with certain financial institutions regulated by other State or Federal agencies. (See ERISA section 408 for the conditions of the exemptions.) Administrative exemptions may be granted by the Department on a class or individual basis for a wide variety of proposed transactions with a plan. Applications for individual exemptions must include, among other information:

Percentage of assets involved in the exemption transaction

The names of persons with investment discretion

Extent of plan assets already invested in loans to, property leased by, and securities issued by parties in interest involved in the transaction

Copies of all contracts, agreements, instruments and relevant portions of plan documents and trust agreements bearing on the exemption transaction

Information regarding plan participation in pooled funds when the exemption transaction involves such funds

Declaration, under penalty of perjury by the applicant, attesting to the truth of representations made in such exemption submissions. Statement of consent by third-party experts acknowledging that their statement is being submitted to the Department as part of an exemption application.

The Department's exemption procedures are set forth at 29 CFR §2570.30 through 2570.51.

#### Enforcement

ERISA imposes substantial law enforcement responsibilities on the Department. Part 5 of ERISA Title I gives the Department authority to bring a civil action to correct violations of the law, gives investigative authority to determine whether any person has violated Title I, and imposes criminal penalties on any person who willfully violates any provision of Part 1 of Title V.

#### Continuation Health Coverage

Continuation health care provisions were enacted as part of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). These provisions cover group health plans of employers with 20 or more employees on a typical working day in the previous calendar year. COBRA gives participants and beneficiaries an election to maintain at their own expense coverage under their health plan at a cost that is comparable to what it would be if they were still members of the employer's group. Employers and plan administrators have an obligation to determine specific rights of beneficiaries with respect to election, notification and type of coverage options. (See 29 USC §§1161 through 1168). Plans must give covered individuals an initial general notice informing them of their rights under COBRA and describing the law. Plan administrators are required to provide specific notices when certain events occur. In most instances of employee death, termination, reduced hours of employment, entitlement to Medicare, or bankruptcy, it becomes the employer's responsibility to provide a specific notice to the plan administrator.

The Department has limited regulatory and interpretative jurisdiction over COBRA provisions. Its responsibility includes the COBRA notification and disclosure provisions.

#### Jurisdiction of the Internal Revenue Service

The IRS has regulatory and interpretative responsibility for all provisions of COBRA not under DOL's jurisdiction. (See IRS proposed regulations in the Federal Register of June 14, 1987 (52 FR 22716).) In addition, ERISA provisions relating to participation, vesting, funding and benefit accrual, contained in parts 2 and 3 of Title I, are generally administered and interpreted by the Internal Revenue Service.

#### Assistance Available

PWBA has numerous general publications designed to assist employers and employees in understanding their obligations and rights under ERISA. Publications -- a listing of PWBA booklets and pamphlets -- is available by writing to: Publications Desk, PWBA, Division of Public Affairs, Room N-5511, 200 Constitution Ave., NW, Washington,

DC 20210.

In addition, employee benefit plan documents and other materials are available from the PWBA Public Disclosure Room. This facility may be used to view and to obtain copies of materials on file. Materials include: summary plan descriptions, Form 5500 Series reports, Master Trust reports, 103-12 Investment Entity Reports, Common or Collective Trust or Pooled Separate Account direct filings, Apprentice and Other Training Plans notices, "Top Hat" plan statements, advisory opinions, announcements and transcripts of public hearings and proceedings.

The PWBA Public Disclosure Room is open to the public Monday through Friday, from 8:30 a.m. to 4:30 p.m. Copies of materials are available at a cost of 15 cents per page by ordering in person or writing to: PWBA Public Disclosure Room, U.S. Department of Labor, Room N-5507, 200 Constitution Ave., NW, Washington, DC 20210. Given the complexity of ERISA requirements, employers may seek the assistance of an attorney, CPA firm, investment or brokerage firm, and other employee benefit consultants in complying with the law.

#### Penalties

PWBA has authority to assess civil penalties for reporting violations and prohibited transactions involving a plan under ERISA Section 502(c). A penalty of up to \$1,000 per day may be assessed against plan administrators who fail to or refuse to comply with annual reporting requirements. Section 502(i) gives the agency authority to assess civil penalties against parties in interest who engage in prohibited transactions with welfare and nonqualified pension plans. The penalty can range from five percent to 100 percent of the amount involved in a transaction. A parallel provision of the Code directly imposes an excise tax against disqualified persons, including employee benefit plan sponsors and service providers, who engage in prohibited transactions with tax-qualified pension and profit sharing plans. Finally, the Department is required under Section 502(l) to assess mandatory civil penalties equal to 20 percent of any amount recovered with respect to fiduciary breaches resulting from either a settlement agreement with the Department or a court order as the result of a lawsuit by the Department.

#### Relation to State, Local and Other Federal Laws

Part 5 of Title I provides that the provisions of ERISA Titles I and IV supersede state and local laws which "relate to" an employee benefit plan. ERISA, however, saves certain state and local laws from ERISA preemption, including certain exceptions for state insurance regulation of multiple employer welfare arrangements (MEWAs). MEWAs generally constitute employee welfare benefit plans or other arrangements providing welfare benefits to employees of more than one employer, not pursuant to a collective bargaining agreement.

In addition, ERISA's general prohibitions against assignment or alienation of pension benefits does not apply to qualified domestic relations orders. These orders must be made pursuant to state domestic relations law and award all or part of a participant's benefit in the form of child support, alimony, or marital property rights to an alternative payee (spouse, former spouse, child or other dependent). Plan administrators must comply with the terms of

such orders.

## 6. WHISTLEBLOWER PROTECTION

Employee Protection (Whistleblower) Provisions -- Clean Air Act (Title 42 U.S. Code, Section 7622); Comprehensive Environmental Response, Compensation and Liability Act (Title 42 U.S. Code, Section 9610); Energy Reorganization Act of 1974 (Title 42 U.S. Code, Section 5851); Safe Drinking Water Act (Title 42 U.S. Code, Section 300j-9(i)); Solid Waste Disposal Act (Title 42 U.S. Code, Section 6971); Toxic Substances Control Act (Title 15 U.S. Code, Section 2622); Federal Water Pollution Control Act (Title 33 U.S. Code, Section 1367); 29 CFR 24).

Who is covered

These environmental Acts provide protection from discharge or other discriminatory actions by employers in retaliation for employees' good faith complaints about safety and health hazards in the workplace. The Acts cover all private sector employers.

Basic Provisions/Requirements

The employee protection provisions of these Acts prohibit employers from discharging or otherwise discriminating against employees in retaliation for their disclosure of safety and health hazards to the employer or to the appropriate federal agency. They also protect employee participation in formal government proceedings in connection with safety and health hazards. The Acts specifically exclude from protection the disclosure of hazards deliberately caused by an employee. Additionally, the statutes do not protect "frivolous" complaints. Employees have the right under the Acts to refuse to work in hazardous or unsafe situations.

Employees who believe they have been discriminated against in violation of these protective provisions may file a complaint, within 30 days of the alleged violation, with the Employment Standards Administration's Wage and Hour Division.

Assistance Available

More detailed information, including copies of explanatory brochures and regulatory and interpretative materials, may be obtained by contacting the offices listed beginning on page 53 in the appendix.

Penalties

Upon receipt of a complaint, the Wage and Hour Division conducts an investigation to determine whether a violation has occurred. When a violation has occurred, the employer is notified of the violation determination and efforts are made to conciliate the situation. The employer may appeal a violation determination to an administrative law judge, if done within 5 calendar days of the notification of the determination. The administrative law judge's decision is referred to the Secretary of Labor for a final order. The Secretary may affirm or set aside the administrative law judge's decision. Where the Secretary concludes that a violation has occurred, his/her final order may instruct the employer to take affirmative action to abate the violation and provide for appropriate relief, which may include restoration of back pay, employment status and

benefits. The Secretary may also order the employer to provide compensatory damages to the employee. If dissatisfied with the Secretary's decision, the employer may appeal in federal court. Final determinations on violations are enforceable through the courts. The employee is entitled to similar appeal rights under the Acts.

#### Relation to State, Local and Other Federal Laws

The current whistleblower programs do not preempt existing state statutes and common law claims. All provisions contained in the programs are in addition to protection provided by state laws.

## 7. VETERANS

Veterans' Reemployment Rights Act (VRR).

#### Who is Covered

VRR applies to persons who are inducted into the Armed Forces, to persons who volunteer directly for active duty and to Reservists and members of the National Guard who are called to active duty either voluntarily or involuntarily. In addition, VRR covers members of the Reserves and National Guard during initial active duty training, active duty for training and inactive duty training.

#### Basic Provisions/Requirements

Veterans returning from active duty must meet the following five eligibility requirements to be covered by VRR:

Held an "other than temporary" (not necessarily "permanent") civilian job

Left the civilian job for the purpose of going on active duty  
Did not remain on active duty longer than 4 years, unless the period beyond 4 years (up to an additional year) was "at the request and for convenience of the Federal Government"

Was discharged or released from active duty "under honorable conditions"

Applied for reemployment with the pre-service employer or successor in interest within 90 days after separation from active duty

Eligible veterans are entitled to reinstatement within a reasonable time to a position of like seniority, status and pay. In addition, the returning veterans do not step back on the seniority escalator at the point they stepped off. Rather the veterans step back on at the precise point that they would have occupied had they kept the position continuously during the military service.

VRR provides that a reservist or member of the National Guard shall upon request be granted a leave of absence by such person's employer to perform active duty training or inactive duty training and that the employee shall not be denied retention in employment or any promotion or other incident or advantage of employment because of any obligation as a member of a Reserve component of the Armed Forces. In addition, while the employer is not required to pay the Reservist or National Guard member for the hours or days not worked because of military training obligations, it is unlawful to require the employee to use earned vacation time for military training.

A person who leaves a civilian job in order to perform active duty is not required to request a leave of absence or even to notify the employer that military service is the reason for leaving the job, although such a person is encouraged to provide the employer with as much information as possible. However, a Reservist or member of the National Guard must request a leave of absence when leaving the civilian job to perform active duty training or inactive duty training.

VRR is enforced by DOL's Veterans' Employment and Training Service (VETS).

#### Assistance Available

VETS has published two fact sheets covering the veteran reemployment and job rights. These are OASVET 90-09 entitled "Job Rights for Reservists and Members of the National Guard" and OAVET 90-10 entitled "Reemployment Rights for Returning Veterans." Copies of these and other VETS' publications or answers to questions on VRR may be obtained from the nearest VETS office, as listed beginning on page 67 in the appendix.

#### Penalties

Not Applicable.

#### Relation to State, Local and Other Federal Laws

The VRR does not preempt state laws providing greater or additional rights, but it does preempt state laws providing lesser rights or imposing additional eligibility criteria.

### 8. PLANT CLOSINGS AND MASS LAYOFFS

Worker Adjustment and Retraining Notification (WARN) Act, 29 U.S.C. 2101 et seq.; 20 CFR Part 639.

#### Who is Covered

In general, employers are covered by WARN if they have 100 or more employees, not counting employees who have worked less than 6 months in the last 12 months and not counting employees who work an average of less than 20 hours a week. Regular federal, state and local government entities which provide public services are not covered. Employees entitled to notice under WARN include hourly and salaried workers, as well as managerial and supervisory employees.

#### Basic Provisions/Requirements

WARN requires employers to provide notice 60 days in advance of covered plant closings and covered mass layoffs. This notice must be provided to affected workers or their representatives (e.g., a labor union), to the state dislocated worker unit, and to the appropriate local government.

A covered plant closing occurs when a facility or operating unit is shut down for more than 6 months, and 50 or more workers lose their jobs as a result during a 30-day period. A covered mass layoff occurs when a layoff of 6 months or longer affects 500 or more workers, or 33 percent or more of the employer's workforce when the layoffs affect between 50 and 499 workers. The number of affected workers is the total number laid off during a 30-, or in some cases

90-, day period.

WARN does not apply to the closing of temporary facilities, or the completion of an activity when the workers were hired only for the duration of that activity. WARN also provides for less than 60 days notice when the layoffs were the result of the closing a faltering company, unforeseeable business circumstances, or a natural disaster.

#### Assistance Available

The Department of Labor has published a pamphlet entitled "A Guide to Advance Notice of Closings and Layoffs," which describes the Worker Adjustment and Retraining Notification Act. Requests for copies of the pamphlet, or general questions on the regulations, may be addressed to:

U.S. Department of Labor  
Employment and Training Administration  
Office of Work-Based Learning  
Room N-4469  
200 Constitution Avenue, N.W. Washington, DC 20210  
(202) 219-5577 (not a toll-free number)

The Department, since it does not have administrative or enforcement authority under WARN, cannot provide specific advice or guidance with respect to individual situations.

#### Penalties

An employer who violates the WARN provisions is liable to each employee for an amount equal to back pay and benefits for the period of the violation, up to 60 days. This may be reduced by the period of any notice that was given, and any voluntary payments made by the employer to the employee.

An employer who fails to provide the required notice to the unit of local government is subject to a civil penalty not to exceed \$500 for each day of violation. This may be avoided if the employer satisfies the liability to each employee within 3 weeks after the closing or layoff.

Enforcement of WARN requirements is through the United States district courts. Workers, or their representatives, and units of local government may bring individual or class action suits. The Court may allow reasonable attorney's fees as part of any final judgement.

#### Relation to State, Local and Other Federal Laws

WARN is in addition to, and does not preempt any other federal, state or local law, or any employer/employee agreement which requires other notification or benefit.

#### 9. LIE DETECTOR TESTS

Employee Polygraph Protection Act of 1988 (29 U.S. Code, Section 2001 et seq.; 29 CFR Part 801).

#### Who is Covered



The Employee Polygraph Protection Act (EPPA) applies to most private employers. Federal, state and local governments are not covered by the law.

#### Basic Provisions/Requirements

The EPPA prohibits most private employers from using lie detector tests either for pre-employment screening or during the course of employment.

Employers are generally prohibited from requiring or requesting any employee or job applicant to take a lie detector test, and from discharging, disciplining, or discriminating against an employee or prospective employee for refusing to take a test or for exercising other rights under the Act. Employers may not use or inquire about the results of a lie detector test or discharge or discriminate against an employee, a prospective employee, or a former employee for refusal to take a test, on the basis of the results of a test, or for filing a complaint, or participating in a proceeding under the Act.

The Act permits polygraph (a type of lie detector) tests to be administered, subject to restrictions, to certain prospective employees of security service firms (armored car, alarm, and guard), and of pharmaceutical manufacturers, distributors and dispensers.

The Act also permits polygraph testing, subject to restrictions, of certain employees of private firms who are reasonably suspected of involvement in a workplace incident (theft, embezzlement, etc.) that resulted in specific economic loss or injury to the employer. Where polygraph examinations are permitted, they are subject to strict standards concerning the conduct of the test, including the pretest, testing and post-testing phases. An examiner must also be licensed and bonded or have professional liability coverage. The Act strictly limits the disclosure of information obtained during a polygraph test.

#### Assistance Available

The Act is administered and enforced by the Employment Standards Administration's Wage and Hour Division. More detailed information, including copies of explanatory brochures and regulatory and interpretative materials, may be obtained by contacting the offices listed beginning on page 53 in the appendix.

#### Penalties

The Secretary of Labor can bring court action to restrain violators and assess civil money penalties up to \$10,000 per violation against violators. Employers who violate the law may be liable to the employee or prospective employee for legal and equitable relief, including employment, reinstatement, promotion and payment of lost wages and benefits. Any person against whom a civil money penalty is assessed may, within 30 days of the notice of assessment, request a hearing before an administrative law judge. If dissatisfied with the administrative law judge's decision, such person may request a review of the decision by the Secretary of Labor. Final determinations on violations are enforceable through the courts.

## Relation to State, Local and Other Federal Laws

The law does not preempt any provision of any state or local law or any collective bargaining agreement which is more restrictive with respect to lie detector tests.

## 10. WAGE GARNISHMENT

Title III, Consumer Credit Protection Act (15 U.S. Code, Sections 1671 et seq; 29 CFR 870).

### Who is Covered

Title III of the Consumer Credit Protection Act (CCPA) protects employees from being discharged by their employers because of garnishment for any one indebtedness and limits the amount of employees' earnings which may be garnished in any one week. Title III applies to all individuals who receive personal earnings and to their employers. Personal earnings include wages, salaries, commissions, bonuses and income from a pension or retirement program but does not ordinarily include tips. The law applies in all 50 states, the District of Columbia, Puerto Rico and all U.S. territories and possessions.

### Basic Provisions/Requirements

Wage garnishment is a legal procedure through which the earnings of an individual are required by court order to be withheld by an employer for the payment of a debt. Title III prohibits an employer from discharging an employee whose earnings have been subject to garnishment for any one debt, regardless of the number of levies made or proceedings brought to collect it. It does not, however, protect an employee from discharge if the employee's earnings have been subject to garnishment for a second or subsequent debts.

Title III also protects employees by limiting the amount of their earnings that may be garnished in any workweek or pay period to the lesser of 25 percent of disposable earnings or the amount by which disposable earnings are greater than 30 times the federal minimum hourly wage prescribed by section 6(a)(1) of the Fair Labor Standards Act of 1938. This limit applies regardless of the number of garnishment orders received by an employer. The federal minimum wage is \$4.25 per hour.

In court orders for child support or alimony, Title III allows up to 50 percent of an employee's disposable earnings to be garnished if the employee is supporting another spouse or child, and up to 60 percent for an employee who is not. An additional 5 percent may be garnished for support payments which are more than 12 weeks in arrears.

"Disposable earnings" is the amount of employee earnings left after legally required deductions have been made for federal, state and local taxes, Social Security, unemployment insurance and state employee retirement systems. Other deductions which are not required by law, e.g., union dues, health and life insurance, and charitable contributions, are not subtracted from gross earnings when calculating the amount of disposable earnings for garnishment purposes.

Title III specifies that garnishment restrictions do not apply to bankruptcy court orders and debts due for federal and state taxes. Nor does it affect voluntary wage assignments, i.e., situations in which workers voluntarily agree that their employers may turn over some specified amount of their earnings to a creditor or creditors.

#### Assistance Available

Title III is administered and enforced by the Employment Standards Administration's Wage and Hour Division. More detailed information, including copies of explanatory brochures and regulatory and interpretative materials, may be obtained by contacting the offices listed beginning on page 53 in the appendix.

#### Penalties

Violations of Title III may result in the reinstatement of a discharged employee, with back pay, and the correction of improper garnishment amounts. Where violations cannot be resolved through informal means, court action may be initiated to restrain and remedy violations. Employers who willfully violate the discharge provisions of the law may be prosecuted criminally and fined up to \$1,000, or imprisoned for not more than one year, or both.

#### Relation to State, Local and Other Federal Laws

If a state wage garnishment law differs from Title III, the law resulting in the smaller garnishment, or prohibiting the discharge of any employee because his or her earnings have been subject to garnishment for more than one indebtedness must be observed.

### APPENDIX

#### Wage and Hour Division

##### National Office

Office of Program Operations  
Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor, Room S-3028  
200 Constitution Ave., N.W.  
Washington, D.C. 20210  
(202) 219-8353

Division of Farm Labor, Child Labor, and Polygraph Standards  
Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor, Room S-3510  
200 Constitution Ave., N.W.  
Washington, D.C. 20210  
(202) 219-4670

Division of Contract Standards Operations  
Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor, Room S-3018  
200 Constitution Ave., N.W.  
Washington, D.C. 20210

(202) 219-7541

Division of Fair Labor Standards Act Operations  
Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor, Room S-3516  
200 Constitution Ave., N.W.  
Washington, D.C. 20210  
(202) 219-1407

Division of Wage Determinations  
Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor, Room S-3014  
200 Constitution Ave., N.W.  
Washington, D.C. 20210  
(202) 219-7531

Regional Administrators

Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor, Room 750  
201 Varick St.  
New York, New York 10014  
(212) 337-2000

Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor, Room 662  
1375 Peachtree St., N.E.  
Atlanta, Georgia 30367  
(404) 347-4801

Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor  
Federal Building, S. 800  
525 S. Griffin St.  
Dallas, Texas 75202  
(214) 767-6894

Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor  
Federal Office Building  
1801 California St., S. 930  
Denver, Colorado 80202-2614  
(303) 391-6780

Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor  
1111 Third Ave., S. 600  
Seattle, Washington 98101  
(206) 553-1914

Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor  
One Congress St., 11th Fl.

Boston, Massachusetts 02114  
(617) 565-2066

Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor, Room 15230  
Gateway Building  
3535 Market St.  
Philadelphia, Pennsylvania 19104  
(215) 596-1185

Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor, Room 820  
230 South Dearborn St.  
Chicago, Illinois 60604  
(312) 353-7280

Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor  
Federal Office Building, Room 2000  
911 Walnut St.  
Kansas City, Missouri 64106  
(816) 426-5381

Wage and Hour Division  
Employment Standards Administration  
U.S. Department of Labor, S. 930  
71 Stevenson St.  
San Francisco, California 94105  
(415) 744-6645

Office of Federal Contract Compliance Programs

OFCCP/ESA  
U.S. Department of Labor  
200 Constitution Ave., N.W.  
Washington, DC 20210  
(202) 219-9475

OFCCP/ESA  
U.S. Department of Labor  
One Congress St., 11th Fl.  
Boston, MA 02114  
(617) 565-2055

OFCCP/ESA  
U.S. Department of Labor  
201 Varick St., Room 750  
New York, NY 10014  
(212) 337-2006

OFCCP/ESA  
U.S. Department of Labor  
Gateway Building, Room 15340  
3535 Market St.  
Philadelphia, PA 19104  
(215) 596-6168

OFCCP/ESA

U.S. Department of Labor, S. 678  
1375 Peachtree St., N.E.  
Atlanta, GA 30367  
(404) 347-3200

OFCCP/ESA  
U.S. Department of Labor  
New Federal Building, Room 570  
230 South Dearborn St.  
Chicago, IL 60604  
(312) 353-0335

OFCCP/ESA  
U.S. Department of Labor  
Federal Building, Room 840  
525 South Griffin St.  
Dallas, TX 75202  
(214) 767-4771

OFCCP/ESA  
U.S. Department of Labor  
911 Walnut St., Room 2011  
Kansas City, MO 64106  
(816) 426-5384

OFCCP/ESA  
U.S. Department of Labor  
Federal Office Building, S. 935  
1801 California St.  
Denver, CO 80202  
(303) 844-5011

OFCCP/ESA  
U.S. Department of Labor  
71 Stevenson St., S. 910  
San Francisco, CA 94105  
(415) 744-6640

OFCCP/ESA  
U.S. Department of Labor, S. 610  
1111 Third Ave.  
Seattle, WA 98101  
(206) 553-4508

#### Occupational Safety and Health Administration

##### State Program Offices

Alaska Department of Labor  
1111 West 8th St., Room 306  
Juneau, AK 99802  
(907) 465-2700

Industrial Comm. of Arizona  
800 W. Washington  
Phoenix, AZ 85007  
(602) 542-5795

California Dept. of Industrial Relations  
455 Golden Gate Ave., 4th Fl.  
San Francisco, CA 94102

(415) 703-4590

Connecticut Dept. of Labor  
200 Folly Brook Blvd.  
Wethersfield, CT 06109  
(203) 566-5123

Hawaii Dept. of Labor and Industrial Relations  
830 Punchbowl St.  
Honolulu, HI 96813  
(808) 586-8844

Indiana Dept. of Labor  
State Office Bldg., Room W-195  
402 West Washington St.  
Indianapolis, IN 46204  
(317) 232-2378

Iowa Div. of Labor Services  
1000 E. Grand Ave.  
Des Moines, IA 50319  
(515) 281-3447

Kentucky Labor Cabinet  
1049 US Highway 127 South  
Frankfort, KY 40601  
(502) 564-3070

Maryland Div. of Labor and Industry  
Dept of Licensing and Regs  
501 St. Paul Pl., 2nd Fl.  
Baltimore, MD 21202  
(301) 333-4179

Michigan Dept. of Labor  
P.O. Box 30015  
Victor Office Center  
201 N. Washington Square  
Lansing, MI 48933  
(517) 373-9600

Michigan Dept. of Public Health  
P.O. Box 30195  
3423 N. Logan St.  
Lansing, MI 48909  
(517) 335-8022

Minnesota Dept. of Labor and Industry  
443 Lafayette Rd.  
St. Paul, MN 55155  
(612) 296-2342

Nevada Department of Industrial Relations  
Division of Occupational Safety and Health  
Capitol Complex  
1370 S. Curry St.  
Carson City, NV 89710  
(702) 687-3032

New Mexico Environment Dept.  
Occupational Health and Safety Bureau

P.O. Box 26110  
1190 St. Francis Dr.  
Santa Fe, NM 87502  
(505) 827-2850

New York Dept. of Labor  
State Office Building  
Campus 12, Room 457  
Albany, NY 12240  
(518) 457-2741

North Carolina Dept. of Labor  
4 W. Edenton St.  
Raleigh, NC 27601  
(919) 733-0360

Oregon Occupational Safety and Health Div.  
Dept. of Insurance and Finance, Room 160  
21 Labor and Industry Bldg.  
Summer and Chemekita Sts., N.E.  
Salem, OR 97310  
(503) 378-3272

Puerto Rico Dept. of Labor and Human Resources  
505 Munoz Rivera Ave.  
Hato Rey, PR 00918  
(809) 754-2119

South Carolina Dept. of Labor  
P.O. Box 11329  
3600 Forest Dr.  
Columbia, SC 29211  
(803) 734-9594

Tennessee Dept. of Labor  
501 Union Bldg, 2nd Fl., S. "A"  
Nashville, TN 37243  
(615) 741-2582

Utah Occupational Safety and Health  
160 E. 300 South  
P.O. Box 5800  
Salt Lake City, UT 84110  
(801) 530-6900

Vermont Dept. of Labor and Industry  
120 State St.  
Montpelier, VT 05620  
(802) 828-2288

Virgin Islands Dept. of Labor  
2131 Hospital St.  
Christiansted, St Croix VI 00840  
(809) 773-1994

Virginia Dept. of Labor and Industry  
Powers-Taylor Bldg.  
13 S. 13th St.  
Richmond, VA 23219  
(804) 786-2376



Washington Dept. of Labor and Industries  
P.O. Box 44001  
Olympia, WA 98504  
(206) 956-4200

Wyoming Dept. of Employment  
Occupational Health and Safety Administration  
Herschler Bldg, 2nd Fl. East  
122 West 25th St  
Cheyenne, WY 82002  
(307) 777-7672

#### Regional OSHA Offices

Region I (CT\*\*, MA, ME, NH, RI, VT\*)  
133 Portland St., 1st Fl.  
Boston, MA 02114  
(617) 565-7164

Region II (NJ, NY\*\*, PR\*, VI\*)  
201 Varick St., Room 670  
New York, NY 10014  
(212) 337-2378

Region III (DC, DE, MD\*, PA, VA\*, WV)  
3535 Market St., S. 2100  
Philadelphia, PA 19104  
(215) 596-1201

Region IV (AL, FL, GA, KY\*, MS, NC\*, SC\*, TN\*)  
1375 Peachtree St., N.E., Room 587  
Atlanta, GA 30367  
(404) 347-3573

Region V (IL, IN\*, MI\*, MN\*, OH, WI)  
230 S. Dearborn St., Room 3244  
Chicago, IL 60604  
(312) 353-2220

Region VI (AR, LA, NM\*, OK, TX)  
525 Griffin St, Room 602  
Dallas, TX 75202  
(214) 767-4731

Region VII (IA\*, KS, MO, NE)  
911 Walnut St., Room 406  
Kansas City, MO 64106  
(816) 426-5861

Region VIII (CO, MT, ND, SD, UT\*, WY\*)  
1961 Stout St., Room 1576  
Denver, CO 80294  
(303) 844-3061

Region IX (American Samoa, AZ\*, CA\*, Guam, HI\*, NV\*, Pacific Trust  
Territories)  
71 Stevenson St., 4th Flr.  
San Francisco, CA 94105  
(415) 744-6670

Region X (AK\*, ID, OR\*, WA\*)

1111 Third Ave., Room 715  
Seattle, WA 98101-3212  
(206) 553-5930

\*State operates an OSHA-approved program in both the public and private sectors.

\*\*State operates a public employee-only program (NY & CT).

Office of Labor-Management Standards

OLMS  
S. 600  
1365 Peachtree St., NE  
Atlanta, GA 30367  
(404) 347-4237

OLMS  
S. 302  
121 High St.  
Boston, MA 02110  
(617) 565-8130

OLMS  
S. 774  
Federal Office Building  
230 S. Dearborn St.  
Chicago, IL 60604  
(312) 353-7264

OLMS  
S. 831  
Federal Office Building  
1240 East 9th St.  
Cleveland, OH 44199  
(216) 522-3855

OLMS  
S. 300  
525 Griffin Square Bldg.  
Griffin and Young Streets  
Dallas, TX 75202  
(214) 767-6834

OLMS  
S. 1606  
Federal Office Building  
Kansas City, MO 64106  
(816) 426-2547

OLMS  
S. 878  
201 Varick St.  
New York, NY 10014  
(212) 337-2580

OLMS  
S. 9452  
William Green Federal Building  
600 Arch St.  
Philadelphia, PA 19106

(215) 597-4960

OLMS  
S. 725  
71 Stevenson St.  
San Francisco, CA 94105  
(415) 744-6669

OLMS  
S. 558  
Ridell Building  
1730 K St., N.W.  
Washington, DC 20006  
(202) 254-6510

Veterans Employment and Training Service

MONTGOMERY, ALABAMA 36130  
649 Monroe St.  
(205) 223-7677

JUNEAU, ALASKA 99802  
1111 West 8th St.  
(907) 465-2723

PHOENIX, ARIZONA 85005  
1300 West Washington  
(602) 261-4961

LITTLE ROCK, ARKANSAS 72201  
Employment Security Bldg.  
State Capitol Mall, Rm. G-12  
(501) 682-3786

SACRAMENTO, CALIFORNIA 94280  
P. O. Box 942880  
800 Capitol Mall, Room W1142  
(916) 654-8178

SAN FRANCISCO, CALIFORNIA 94105  
71 Stevenson St., S. 705  
(415) 744-6677

DENVER, COLORADO 80203  
600 Grant St., S. 900  
(303) 866-1114

WETHERSFIELD, CONNECTICUT 06109  
CT Department of Labor Building  
200 Folly Brook Boulevard  
(203) 566-3326

NEWARK, DELAWARE 19702  
Stockton Building, Room 104  
100 Chapman Rd.  
(302) 368-6898

WASHINGTON, D.C. 20001  
500 C St., N.W., Room 108  
(202) 727-3342

TALLAHASSEE, FLORIDA 32399  
S. 102, Atkins Building  
1320 Executive Center Dr.  
(904) 488-2967

ATLANTA, GEORGIA 30303  
Sussex Place, S. 504  
148 International Blvd, N.E.  
(404) 656-3127

HONOLULU, HAWAII 96813  
830 Punchbowl St.  
Room 232A  
(808) 541-1780

BOISE, IDAHO 83735  
317 Main St., Room 303  
(208) 334-6164 or 6163

CHICAGO, ILLINOIS 60605  
401 South State St., 2 North  
(312) 793-3433

INDIANAPOLIS, INDIANA 46204  
10 North Senate Ave., Room 203  
(317) 232-6804

DES MOINES, IOWA 50319  
1000 East Grand Ave.  
(515) 281-5106

TOPEKA, KANSAS 66612  
1309 Topeka Boulevard  
(913) 296-5032

FRANKFORT, KENTUCKY 40621  
c/o Department for Employment Services  
275 East Main St.  
(502) 564-7062

BATON ROUGE, LOUISIANA 70804  
Louisiana DOL  
Employment Security Bldg.  
Room 174, 1001 N. 23rd St.  
(504) 342-5691

LEWISTON, MAINE 04243  
522 Lisbon St.  
(207) 783-5352

BALTIMORE, MARYLAND 21201  
1100 North Eutaw St.  
Room 205  
(410) 333-5194

BOSTON, MASSACHUSETTS 02203  
Room 506, JFK Federal Building  
(617) 565-2081

DETROIT, MICHIGAN 48202  
7310 Woodward Ave.

S. 407  
(313) 876-5613, 5614, or 5615

ST. PAUL, MINNESOTA 55101  
390 North Robert, 1st Fl.  
(612) 296-3665

JACKSON, MISSISSIPPI 39215  
1520 West Capitol St.  
(601) 961-7588  
JEFFERSON CITY, MISSOURI 65104  
421 East Dunklin St.  
(314) 751-9231

HELENA, MONTANA 59624  
515 North Sanders  
(406) 449-5431

LINCOLN, NEBRASKA 68509  
550 South 16th St.  
(402) 437-5289

CARSON CITY, NEVADA 89710  
500 East Third St.  
(702) 885-4632

CONCORD, NEW HAMPSHIRE 03301  
55 Pleasant St., Room 325  
(603) 225-1424 or 235-1425

TRENTON, NEW JERSEY 08609  
28 Yard Ave., Room 200  
(609) 292-2930

ALBUQUERQUE, NEW MEXICO 87108  
1st National Bank Building, East  
5301 Central, N.E., Room 1214  
(505) 841-4592

ALBANY, NEW YORK 12240  
Harriman State Campus  
Building 12, Room 518  
(518) 457-7465

RALEIGH, NORTH CAROLINA 27605  
700 Wade Ave.  
(919) 733-7402

BISMARCK, NORTH DAKOTA 58501  
1000 Divide Ave.  
(701) 224-2865

CLEVELAND, OHIO 44115  
2728 Euclid Ave., 2nd Fl.  
(216) 622-3084

COLUMBUS, OHIO 43216  
OBES Building  
145 South Front St.  
(614) 466-2768

OKLAHOMA CITY, OKLAHOMA 73105  
Will Rogers Memorial Office Building, Room 301  
(405) 557-7189

SALEM, OREGON 97311  
312 Employment Division Building  
875 Union St., N.E.  
(503) 378-3338

HARRISBURG, PENNSYLVANIA 17121  
Labor and Industry Building  
Room 625  
Seventh and Forster Streets  
(717) 787-5834

HATO REY, PUERTO RICO 00918  
Puerto Rico Department of Labor and Human Resources Building  
505 Munoz Rivera Ave.  
15th Fl.  
(809) 754-5391

PROVIDENCE, RHODE ISLAND 02903  
507 Federal Building and Courthouse  
(401) 528-5134

COLUMBIA, SOUTH CAROLINA 29201  
914 Richland St., S. 101  
(803) 253-7649

ABERDEEN, SOUTH DAKOTA 57402  
420 South Roosevelt  
P. O. Box 4730  
(605) 226-7289

NASHVILLE, TENNESSEE 37201  
301 James Robertson Parkway  
Room 317  
(615) 741-2135

AUSTIN, TEXAS 78701  
TEC Building, Room 516-B  
Trinity and 12th St.  
(512) 463-2207

SALT LAKE CITY, UTAH 84111  
140 E. 300 South  
(801) 524-5703 or 524-5704

MONTPELIER, VERMONT 05602  
Post Office Building  
87 State St., Room 303  
(802) 828-4441 or 828-4437

RICHMOND, VIRGINIA 23219  
701 East Franklin St., S. 1409  
(804) 786-7269

LACEY, WASHINGTON 98503  
605 Woodview Dr., S.E.  
(206) 438-4600

CHARLESTON, WEST VIRGINIA 25305  
112 California Ave., Room 212  
Capitol Complex  
(304) 348-4001 or 347-5290

MADISON, WISCONSIN 53701  
GEF I, 201 E. Washington Ave.  
Room 250  
(608) 266-3110

CASPER, WYOMING 82602  
100 West Midwest Ave.  
(307) 235-3281 or 235-3282

Mine Safety and Health Administration

Coal Mining

MSHA District 1 Office  
Penn Place  
20 N. Pennsylvania Ave.  
Wilkes-Barre, PA 18701.  
(717) 826-6321

MSHA District 2 Office  
R.R. 1, Box 736  
Hunker, PA 15639  
(412) 925-5150

MSHA District 5 Office  
P.O. Box 560  
Norton, VA 24273  
(703) 679-0230

MSHA District 8 Office  
501 Busseron St.  
Vincennes, IN 47591  
(812) 882-7617

MSHA District 3 Office  
5012 Mountaineer Mall  
Morgantown, WV 26505  
(304) 291-4277

MSHA District 4 Office  
100 Bluestone Rd.  
Mt. Hope, WV 25880  
(304) 877-3900

MSHA District 6 Office  
219 Ratliff Creek Rd.  
Pikeville, KY 41501  
(606) 432-0943

MSHA District 7 Office  
HC 66, Box 1762  
Barbourville, KY 40906  
(606) 546-5123

MSHA District 10 Office  
100 YMCA Dr.

Madisonville, KY 42431  
(502) 821-4180

MSHA District 9 Office  
P.O. Box 25367  
Denver, CO 80225  
(303) 231-5468

Metal and Nonmetal Mining

MSHA Northeastern District Office  
230 Executive Dr.  
Mars, PA 16046  
(412) 772-2333

MSHA Southeastern District Office  
35 Gemini Circle, S. 212  
Birmingham, AL 35209  
(205) 290-7294

MSHA North Central District Office  
515 W. First St.  
No. 228  
Duluth, MN 55802  
(218) 720-5448

MSHA South Central District Office  
1100 Commerce St., Room 4650  
Dallas, TX 75242  
(214) 767-8401

MSHA Rocky Mountain District Office  
P.O. Box 25367  
Denver, CO 80225  
(303) 231-5465

MSHA Western District Office  
3333 Vaca Valley Parkway, S. 600  
Vacaville, CA 95688  
(707) 447-9844

Longshore and Harbor Workers

OWCP/DLHWC  
U.S. Department of Labor, ESA  
Room C-4315  
200 Constitution Ave., N.W.  
Washington, D.C. 20210  
(202) 219-8572

District NO. 1 (MA, ME, NH, VT, RI, and CT)

OWCP/DLHWC  
U.S. Department of Labor, ESA  
One Congress St., 11th Fl.  
Boston, MA 02114  
(617) 565-2103

District NO. 2 (NY, NJ, and Puerto Rico)

OWCP/DLHWC



U.S. Department of Labor, ESA  
P.O. Box 249  
201 Varick St., Room 750  
New York, NY 10014  
(212) 337-2033

District NO. 3 (PA, DE, and WV)

OWCP,DLHWC  
U.S. Department of Labor, ESA  
P.O. Box 7336  
Gateway Building, Room 13180  
3535 Market St.  
Philadelphia, PA 19104  
(215) 596-5570

District NO. 7 (LA and AR)

OWCP/DLHWC  
U.S. Department of Labor, ESA  
Room 13032  
701 Loyola Ave.  
New Orleans, LA 70113  
(504) 589-3664

District NO. 8 (TX, OK, and NM)

OWCP/DLHWC  
U.S. Department of Labor, ESA  
One South Green Building, Room 105  
12600 N. Featherwood Dr.  
Houston, TX 77034  
(713) 481-9750

District No. 10 (IL, IN, IA, KS, MI, MN, MO, NE, OH, and WI)

OWCP/DLHWC  
U.S. Department of Labor, ESA  
Room 800  
230 South Dearborn St.  
Chicago, IL 60604  
(312) 353-8883

District NO. 18 (That part of the State of California south of the northern boundaries of the counties of San Luis Obispo, Kern, and San Bernardino)

OWCP/DLHWC  
U.S. Department of Labor, ESA  
S. 720  
401 E. Ocean Boulevard  
Long Beach, CA 90802  
(213) 514-6226

District NO. 40 (Processes cases under the District of Columbia Workmen's Compensation Act of 1928)

Labor Standards  
D.C. Department of Employment Services  
1200 Upshur St., N.W.  
Washington, DC 20011

(202) 576-6265

District NO. 4 (MD and DC)

OWCP/DLHWC

U.S. Department of Labor, ESA  
Federal Building, Room 1026  
31 Hopkins Plaza  
Baltimore, MD 21201  
(410) 962-3677

District NO. 5 (VA)

OWCP/DLHWC

U.S. Department of Labor, ESA  
Federal Building, Room 212  
200 Granby Mall  
Norfolk, VA 23510  
(804) 441-3071

District NO. 6 (FL, NC, KY, TN, SC, GA, AL, and MS)

OWCP/DLHWC

U.S. Department of Labor, ESA  
Edward Ball Building, Fl. 10  
214 Hogan St.  
Jacksonville, FL 32202  
(904) 791-2881

District No. 13 (AZ NV, and that part of the State of California  
north of the northern boundaries of the counties of San Luis  
Obispo, Kern, and San Bernardino)

OWCP/DLHWC

U.S. Department of Labor, ESA  
P.O. Box 3770  
71 Stevenson St., Room 210  
San Francisco, CA 94119  
(415) 744-6869

District NO. 14 (AK, CO, ID, MT, ND, SD, OR, UT, WA, and WY)

OWCP/DLHWC

U.S. Department of Labor, ESA  
1111 3rd. Ave., S. 620  
Seattle, WA 98101  
(206) 442-4471

Dallas Office

OWCP

U.S. Department of Labor, ESA  
Griffin Square Building, Room 407  
525 Griffin Square  
Dallas, TX 75202  
(214) 767-4712

District NO. 15 (Hawaii)

OWCP/DLHWC

U.S. Department of Labor, ESA  
P.O. Box 50209, Room 5108

300 Ala Moana Boulevard  
Honolulu, HI 96850  
(808) 551-1983

## Business Start-Up Fact Finder Manual

### Introduction

America is coming home to work. Home-based offices are becoming the wave of the future. Tens of thousands of workers are opting for this way of life, a life in which they can make their own hours, commute to work in seconds, make their own choices and become their own bosses.

For many the home office is becoming the location for a full-time job and the primary source of income. For others it is a part-time venture. Many start on a part-time basis and grow their business into a full-time operation.

Current figures available indicate that during 1991 the percentage of self-employed working from home jumped by almost 6% to approximately 12 million. While working at home has an almost irresistible appeal to many, and many have some big misconceptions of what it is like, here is some very useful information that can help you get started successfully.

### Legalities of Working at Home

#### Zoning

Before setting up your new business it would be advisable to check on the legal status of your business. You need to check zoning laws for your community which may dictate if you can legally operate a business from home. We realize that many businesses never check on zoning for their home-based business and chances that they ever get into difficulties with the law are probably pretty slim. If there are no changes in structure and you do not have customers and or employees enter your home, regulations will tend to be far more easy. Laws and regulations change from community to community, but the following 5 factors will generally be regulated items:

1. Separate business and private entrances.
2. Square footage of the home which is taken up by commercial space.
3. Employees working in the home.
4. Certain occupations such as jewelry or clothing
5. Storage of commercial goods, especially any hazardous materials.

Here is an important suggestion: keep relations with your neighbors on a

friendly basis. Your neighbors will soon become aware that you are working at home. Some may even be envious, and yes, unfortunately zoning authorities will generally become aware of home office zoning infractions through a "friendly neighbor".

#### Business License

Most cities or counties require businesses to be licensed. Some home-operated businesses, however, are not required to have a business license. Check with your local City or County Clerks Office to obtain regulations for your locality.

#### D.B.A. Registration

If you are using your own name as your business name it will not need to be registered, but if you use any other name, or even your abbreviated name, almost all localities require that you register the name. This is called a fictitious name registration or D.B.A. "Doing Business As" registration. If your name is:

Randy M Jones and you name your business Randy Jones or Randy M Jones Enterprise you will not have to register it, but if you call it: RMJ Enterprises you will generally have to register the name.

Most states have a name search bureau which is a part of the state government. You will generally be able to call this office to see if a given name has already been registered to someone else in the state. This is important to do, or it could be costly later. If you give your business a name which is already registered to another company, the other company may demand, and even take legal action to make sure you comply, that you cease to use the name.

#### Your Company as a Legal Entity

Businesses are most commonly set-up as one of the following entities:

The Sole Proprietorship  
Incorporation  
Partnership

Most new businesses choose the Sole Proprietorship. It is the least complicated. It requires no paperwork. The proprietor you, or you and your spouse as the owner, or owners, are taxed for all net profit from your business. You add the income of the business to other income, or deduct the business loss from other income. Your tax adviser can give you specific information.

The disadvantage of the Sole Proprietorship is that as the owner you can

be held fully liable in a lawsuit. An incorporation, on the other hand, will give you some protection. In this case the "INC" rather than you is the legal business entity. If you are starting a business that tends to have liability exposure the corporation may be the way to go. In this and other legal questions, only your attorney can give you competent legal advice.

Partnerships are generally chosen when unrelated individuals own a business. A partnership should be set up by an attorney, or all kinds of problems can develop later.

#### Designing Your Work-space

First, you must determine how much space you need. Chances are what you may initially think is quite large may be crowded or not enough space. While many businesses are started from a corner of the bedroom or kitchen, if the space is available it would be far better idea to take a spare area of the house and convert it into your office. There may be space in the basement, garage, or a spare bedroom. Having a separate space is more efficient and will make for maximum efficiency. It is also psychologically important. You do not want home activities to interfere with your business, or vice versa.

Friends and family will need to be told politely firmly that business hours mean business and dropping in, or calling to chit chat is not acceptable. Psychologists suggest that you work "from" home not just in your home. There is a danger of becoming isolated. Inasmuch as time allows, participate in seminars and local business activities and organizations.

#### Financial Planning

It is said and also my own personal experience that owners of new businesses never have enough time or money. The majority of small businesses which do not succeed will fail because they are not properly financed. In your financial planning carefully review all required start-up expenses as well as on-going expenses before revenue will be generated. Estimate your profit margins and all fixed and controlled expenses. Almost all entrepreneurs will tend to be much more optimistic about their estimate of the financial performance of a business taken what is necessarily realistic. There are always unforeseen expenses.

It is a good idea to only invest in absolutely necessary expenses. This applies to furnishings, supplies and all equipment. Computer equipment in recent years has become outdated within a short period of time. So, if what you acquire will serve you well for 2-3 years will be able to upgrade your equipment later on. Your emphasis should be on conserving

capital. As your business develops, unexpected hurdles will come along and periods of low revenue. Your capital will make it possible to keep your business operating during these times.

#### Why Should You Have A Business Plan?

While writing a business plan can be made into a highly sophisticated undertaking especially by large corporations, its easy to do when done for a new or small owner operated-business. Essentially, you will be committing your plan to paper. As you do so your thought will become more formal and concrete and this will tremendously assist you in the development of your business. If you are considering to obtain financing for your new business either through a bank or the SBA, a formal business plan will be a necessity. Home-operated businesses will have a much more difficult time in obtaining financing.

#### Don't Forget Uncle Sam

As in all undertakings of life from birth to death and beyond, the IRS will be there to watch over you. Almost all small, home-based businesses will start out as "Sole Proprietorship." This legal status is best for ease of handling and for tax benefits. Your net business income or loss becomes an addition or deduction to other income declare at the end of the year. Careful record-keeping of all business revenue and expenses is a must. Keep a separate business checking amount for your business. Do not intermingle business and personal expenses. Other special tax benefits and regulations apply to home-operated businesses. You should obtain professional advise from your tax adviser.

#### Free Publications available:

"Record-Keeping For A Small Business" IRS publication 583. Call the IRS 1-800-829-3676.

"Business Use Of Your Home" can also be obtained free from the IRS.

"Tax Guide For Small Business" is an annual IRS publication #334. It is also free.

#### Insurance

One disadvantage of being self-employed is not having health and disability insurance. You may also need liability insurance. Your homeowners insurance covers your belongings in your home, but it may not cover all business inventory and equipment. Check with your insurance agent to make sure you have the right coverage.

#### Factors that will Determine Your Success

## Do Your Homework

The more you know about your business, the better your chances of success. Attend seminars and join trade associations. Read books and trade publications. If you do not have a business background a business introductory class at a local college would be advisable.

## Planning is Key to Your Success

You and your family's future and livelihood is at stake. So your decision and planning to start a business are very serious matter. Establish a long range plan which encompasses your business and financial plans. You should obtain legal or financial advice from an attorney or accountant before committing to any long range or major financial transactions. Agreements with suppliers or customers should be put into writing.

## You Must Wear Many Hats

Small business owners over time can become experts on a variety of subjects. At the start the most important aspect is the mind-set. Your communication to the rest of the world through all available means will determine your success. here is an abbreviated marketing check list:

- Telephone equipment
- Promotional Material
- Advertising (Don't forget the Yellow Pages)
- Stationery
- Direct Mail
- Membership in Organizations
- Direct Sales

## Invest in Good Equipment

The right equipment will make your work easier and your business more efficient. To conserve cash used equipment should also be considered.

## So What Are Your Chances

The better you think they are the better they generally are, and don't forget that among thousands of others:

Apple Computer, Domino's Pizza, and Walt Disney all started as home-based businesses.

## Resources/Associations

There is a great deal of expert advice and resource material available to you. Much of it is free of charge. A variety of literature is available, both excellent books on all business subjects and various magazines. Your local Chamber of Commerce often sponsors

classes. Banks can give you advice, or can be used as a sounding board. Local schools offer a variety of classes of interest to business owners. Don't forget the Public Library. Last, but not least, don't forget the U.S. Government.

SBA (small Business Administration) offers a range of services such as loans, financial consulting, computer and technical consulting services and a variety of publications.

Check your local telephone pages, or contact:

Small Business Administration  
1441 L Street NW  
Washington, DC 20416  
(202) 659-6000

United States Chamber of Commerce provides literature, telephone referrals and other services to small businesses. Contact your local Chamber of Commerce or:

United States Chambers of Commerce  
1615 H Street NW  
Washington, DC 20062  
(202) 659-6000

Internal Revenue Service offers a variety of services which includes workshops, films and publications to clarify tax matters for small businesses. Contact your local IRS office or:

Education Branch, Taxpayer Service Division  
IRS, Department of the Treasury  
1111 Constitution Ave., NW  
Washington, DC 20274  
1-800-424-1040

Better Business Bureau (BBB) The BBB can be an important ally in checking on potential suppliers and other businesses. Check for telephone listing in the city where the company you are checking on is located.

Incorporating a Small Business

Prepared by the  
Office of the General Counsel  
U.S. Small Business Administration

Summary

If you are the owner-manager of a small business you may have been wondering about the advisability of incorporating your business, particularly if you are seeking equity capital.

This Management Aid does not discuss the advantages and disadvantages of the corporate form; its purpose is to acquaint you with some of the basic steps involved once you have decided to incorporate.



This Aid is not to be considered a substitute for professional advice. Legal guidance will insure that (a) the articles of incorporation and the bylaws are tailored to the needs of your particular business enterprise, (b) you understand the various aspects of the tax obligations involved, and (c) you will be in compliance with the State, local, and Federal laws affecting the corporation.

Laws governing the procedure for obtaining a corporate charter vary among States. Detailed information about the requirements of your State can be obtained from the secretary or other official designated to supervise the granting of corporate charters.

#### Choosing the Location

The majority of small and medium-sized businesses, especially those whose trade is local in nature, find it advisable to obtain their charter from the State in which the greatest part of their business is conducted.

Out-of-State, or "foreign," incorporation often results in the additional payments of taxes and fees in another jurisdiction. Moreover, under the laws of many States the property of a foreign corporation is subject to less favorable treatment, especially in the area of attachment of corporate assets. This legal difference could prove especially hazardous to a small business.

On the other hand, you should look into possible benefits to be gained from incorporation in another State. Such factors as State taxes, restrictions on corporate powers and lines of business in which a company may engage, capital requirements, restrictions upon foreign corporations in your State, and so forth should be taken into consideration in selecting the State of incorporation. For example, you should be aware that some States require a foreign corporation to obtain a certificate to do business in their State. Without such certification the corporation may be deprived of the right to sue in those States.

The fee or organization tax charged for incorporation varies greatly from State to State.

#### Certificate Of Incorporation

Generally, the first step in the required procedure is preparation, by the incorporators, of a "certificate of incorporation." Most States used to require that the certificate be prepared by three or more legally

qualified

persons, but the modern trend is to require only one incorporator. An incorporator may, but not necessarily must, be an individual who will ultimately own stock in the corporation.

For purposes of expediting the filing of articles, "dummy" incorporators are often employed. These dummy incorporators are usually associated with a company that performs this service or with an attorney for the organizers. They typically elect their successors and resign at the meeting of the incorporators.

Many States have a standard certificate of incorporation form which may be used by small businesses. Copies of this form may be obtained from the designated State official who grants charters and, in some States, from local stationers as well. The following information is usually required:

1. The corporate name of the company. Legal requirements generally are (a) that the name chosen must not be so similar to the name of any other corporation authorized to do business in the State as to lead to confusion and (b) that the name chosen must not be deceptive so as to mislead the public. In order to be sure that the name you select is suitable, check out the availability of the name through the designated State official in each State in which you intend to do business before drawing up a certificate of incorporation. This check can be made through a service company. In some States, there is a procedure for reserving a name.

2. Purposes for which corporation is formed. Several States permit very broad language, such as "the purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized." However, most States require more specific language in setting forth the purposes of the corporation. Even where State law does not require it, the better practice is to employ a "specific object" clause which spells out in broad descriptive terms the projected business enterprise. At the same time taking care to allow for the possibility of territorial, market, or product expansion. In other words, the language should be broad enough to allow for expansion and yet specific enough to convey a clear idea of the projected enterprise.

The use of a specific object clause, even where not required by State law, is advisable for several reasons. It will convey to financial institutions a clearer picture of the corporate enterprise and will prevent problems in qualifying the corporation to do business in other jurisdictions. Reference

books or certificates of existing corporations can provide examples of such clauses.

3. Length of time for which the corporation is being formed. This may be a period of years or may be perpetual.

4. Names and addresses of incorporators. In certain States one or more of the incorporators is required to be a resident of the State within which the corporation is being organized.

5. Location of the registered office of the corporation in the State of incorporation. If you decide to obtain your charter from another State, you will be required to have an office there. However, instead of establishing an office, you may appoint an agent in that State to act for you. The agent will be required only to represent the corporation, to maintain a duplicate list of stockholders, and to receive or reply to suits brought against the corporation in the State of incorporation.

6. Maximum amount and type of capital stock which the corporation wishes authorization to issue. The proposed capital structure of the corporation should be set forth, including the number and classification of shares and the rights, preferences, and limitations of each class of shares.

7. Capital required at time of incorporation. Some States require that a specified percentage of the par value of the capital stock be paid in cash and banked to the credit of the corporation before the certificate of incorporation is submitted to the designated State official for approval.

8. Provisions for preemptive rights, if any, to be granted to the stockholders and restrictions, if any, on the transfer of shares.

9. Provisions for regulation of the internal affairs of the corporation.

10. Names and addresses of persons who will serve as directors until the first meeting of stockholders or until their successors are elected and qualify.

11. The right to amend, alter, or repeal any provisions contained in the certificate of incorporation. This right is generally statutory, reserved to a majority or two-thirds of the stockholders. Still, it is customary to make it clear in the certificate.

If the designated State official determines that the name of the proposed corporation is satisfactory, that the certificate contains the necessary information and has been properly executed, and that there is nothing in the certificate or the corporation's proposed activities that violate

State  
law or public policy, the charter will be issued.

#### Officers and Stockholders

Next, the stockholders must meet to complete the incorporation process. This meeting is extremely important. It is usually conducted by an attorney or someone familiar with corporate organizational procedure.

In the meeting the corporate bylaws are adopted and a board of directors is elected. This board of directors in turn will elect the officers who actually will have charge of the operations of the corporation--for example, the president, secretary, and treasurer. In small corporations, members of the board of directors frequently are elected as officers of the corporation.

#### Bylaws

The bylaws of the corporation may repeat some of the provisions of the charter and State statute but usually cover such items as the follows:

1. Location of the principal office and other offices of the corporation.
2. Time, place, and required notice of annual and special meetings of stockholders. Also the necessary quorum and voting privileges of the stockholders.
3. Number of directors, their compensation, their term of office, the method of electing them, and the method of creating or filling vacancies in the board of directors.
4. Time and place of the regular and special director's meetings, as well as the notice and quorum requirements.
5. Method of selecting officers, their titles, duties, terms of office, and salaries.
6. Issuance and form of stock certificates, their transfers and their control in the company books.
7. Dividends, when and by whom they may be declared.
8. The fiscal year, the corporate seal, the authority to sign checks, and the preparation of annual statement.
9. Procedure for amending the bylaws.

#### Special Tax Laws

At the time of the first meeting of the corporate board of directors and prior to issuance of any shares, you might consider adoption of a plan under a section of the Internal Revenue Code (IRC 1244) that grants ordinary rather than capital treatment of losses on certain "small

business

stock." Among the requirements of qualification as "section 1224 stock" are

(1) the stock must be common stock, (2) the stock must be issued by the corporation for money or other property pursuant to a written plan containing several limitations, and (3) the amount of contribution received

for the stock and equity capital of the corporation must not exceed maximum dollar limits.

You should be aware, also, of the possibility of electing subchapter S status (IRS 1371-1379). The purpose of subchapter S is to permit a "small

business corporation" to elect to have its income taxed to the shareholders

as if the corporation were a partnership. One objective is to overcome the double-tax feature of the present system of taxation of corporate income.

Another purpose is to permit the shareholders to have the benefit of offsetting business losses by the corporation against the income of the shareholders.

Among the qualifying requirements for electing and maintaining "subchapter

S" eligibility are that the corporation has no more than 10 shareholders,

all of whom are individuals or estates; that there be no nonresident alien

shareholders; that there be only one class of outstanding stock; that all

shareholders consent to the election; and that a specified portion of the

corporation's receipts be derived from actual business activity rather than

passive investments. No limit is placed on the size of the corporation's income and assets.

If you plan to transfer property to a corporation in exchange for stock, you should realize that such a transfer is a taxable transaction unless the

transfer complies with the provisions of IRC section 351.

#### Other Considerations

If your business is at present a sole proprietorship or partnership, you will need to secure a new taxpayer identification number and unemployment

insurance account. You should find out in advance whether present licenses

and leases will be transferable to the new corporate entity.

#### WHAT YOU NEED TO KNOW WHEN BUYING A PERSONAL COMPUTER

##### BUYING A PERSONAL COMPUTER - General Information:

Familiarize yourself with some of the computer language and terminology then shop at several different computer stores and test some of the hundreds of different models

being offered. Most of the computers and programs are simple to operate and you can perform many valuable tasks as well as play games.

Keep in mind that the cost of the system you purchase will usually include only the basic "software" needed and you will probably have to purchase more later in order to do everything you want your computer to do for you. Most software is not cheap...

The basic system consists of the Central Processing Unit, a Keyboard, Screen (Monitor) and Printer. A "mouse" is used on some brands and a cassette recorder can also be used, mostly for games and short programs. A flexible disk (floppy disk) similar to a small phonograph record; or a hard disk, together with an instructional manual, contain the programs that tell the person... and the computer, what to do.

A component that changes electric signals into audio tones, called a "Modem" is used to link your unit with others over the telephone.

Across the country are located large computer systems which store a great amount of information on various subjects. You can hook the computer into one or more of these systems with a "Data-Base Management" program, and by paying a monthly user fee.

The smallest unit of information for the computer is the "Bit". 8 Bits make a "Byte". "Memory" takes two forms...RAM which means Random Access Memory, is a temporary memory picked up when you enter information into the keyboard or from a disk...ROM means Read Only Memory is measured in "K's" with 1,024 Bytes-1K.

The software program will display a "Menu" on the screen. You choose what you want the computer to do and press the proper keys specified in the menu in order to perform the task.

One of the greatest uses of the computer is "word processing", which is merely "glorified" typing, using the keyboard with the copy appearing on the screen as you type. You can correct or change your copy in just about any way imaginable and perform many other time saving functions before the copy is "sent to the printer" or to a disk to be stored for future processing or printing.

Before you make a decision on the purchase be sure you have a good idea of what computer applications you want. Are you going to use it extensively for word processing? For Accounting? Budgeting, Education, Entertainment, or perhaps a mail-order newsletter which requires fancy pictures and a good deal of art work, etc.

Pick up the brochures and booklets explaining the various computers and the software programs so you can review and study the various functions and make comparisons of ease of operation, price refund policy, etc.

When you shop for a computer system ask to operate the various computers yourself so that you will get the feel of each different brand.

Find out about the warranty and service, the availability of added hardware and software.

Does the dealer offer instructions with the purchase? Get the total cost for the unit and the software which will be required to perform the applications you want.

Purchase only the minimum software you need to get started and learn each program as you proceed. You will have a much better knowledge of just what additional software you will need after you have had the computer for a short time and have become more familiar with what it will do for you. However, since you will have substantial funds invested it will pay to purchase all the software necessary for your various needs so that you will get full value from your investment, but be certain you are not getting substitute programs or partial duplications of ones you already have.

What do you need a computer for?

You can now purchase a computer that will run thousands of different programs. You can do just about anything; from games and entertainment to instruction, mathematics, engineering, managing any kind of data, to desk top publishing, business inventories and accounting. Those old timers in the accounting profession and in business management now look back over the many years of working without a computer and wonder how it was possible to accomplish what they did without a computer. Printers can now purchase a desktop publishing system for \$10,000 sufficient for many typesetting jobs that previously cost \$60,000 just a couple of years ago. The computer-laser system is much faster thus saving on labor costs and by using plain paper at less than 1¢ a sheet instead of photo paper at 30¢ to 60¢, they can cut operating costs extensively.

What kind of computer do you need?

First look at the ease of use. Is it "user friendly"? Is the instruction manual easy to follow? Is there adequate software available for it? Does it give you a large enough screen to fit any work you will require? Can you "import" other compatible programs, images, etc., and merge with existing work? Does it give detailed realistic and high resolution results? How about color? Will you need color now or in the future? Is it easily expandable so that more memory or circuit boards, etc., can be added as your need grows? What type of printers will the computer handle?

Can you get questions answered and help when you need it. What about repairs, guarantees and service contracts? How much memory comes with the basic computer and is it going to be sufficient to handle all your projects? Considering the type of software being produced today you should purchase a system with no less than 256K and preferably much more. Also get a computer with at least two disk

drives that will handle 2 sided, double density disks. The keyboard can be an integral part of the computer or detached. Detached is generally preferable because it gives you more flexibility. Pick a computer that uses a keyboard you feel comfortable with. Most computers now are built with standard keys. Be sure it is easy to control the "cursor", graphic keys, escape, repeat, break, reset and return keys.

As to the display window (monitor) you will need, if you are going to be doing a great deal of word processing (typing) a monochrome with green color is much easier on the eyes than black and white. If you are going to be doing color work or graphics you will need color monitor.

#### Printer:

A printer is like a typewriter without keys. It prints out the information that is in the memory of the computer. The main kinds of printers are the "Dot Matrix", "The Letter Quality", and the various ink jet and laser printers. The dot matrix forms letters with tiny wires that punch a pattern of dots on the ribbon for each letter. Some are low print quality, but others look nearly letter quality. Letter quality printers produce typewriter quality print and are referred to as impact printers.

Certain brands of electronic typewriters can be interfaced (connected) with the computer and used as a printer. If you plan on going this route be sure to give it a good test before you buy. Many interfaced typewriters print slowly and also there is the possibility that the warranty on the typewriter may be voided. There are several different ways the paper is fed through the printer. Check to be certain the method used is adequate for your purpose. Also make sure the printer will accept the width and length of paper you require. It will take at least 80 characters for 8 1/2" paper and you will need 132 column printer for accounting or spreadsheets. Check the speed to determine how fast the printer works as there is a large variation between various types and brands of printers. The Laser printer is a great addition to the family of printers. Most good quality laser printers cost much more than Dot Matrix or Letter-Quality printers, but for many purposes they are well worth the difference. They have a great advantage when working with graphics, design, typesetting or desktop publishing. Perhaps a mail-order newsletter which requires fancy pictures and a good deal of art work etc.

#### Modem:

You can use your computer to connect to hundreds of different sources of information through the use of a modem. This is an accessory that connects the computer to the telephone line. How fast you are able to send information over the phone is determined by the Baud rate. You should probably have a modem with 1200 baud that will work with the majority of others. Check with your dealer to be sure it is adequate for your system. You will need communication software programs in order to send and receive stored information.



Along with the line of communications, you can get a speech synthesizer or voice recognition add-on that converts your spoken words into writing or visa versa. To create computer game controllers, graphics and pictures you can get such things as light pens, plotters, mice, etc. Other more expensive devices allow you to import photos, text, etc., directly into the computer for hard-copy printout. You can add circuit boards to your computer which will activate electrical devices; turn them on or off, dial your phone, or make mechanical monsters do what you command.

#### Software needed:

Software is simply instructions that tell the compute what to do. It comes in the form of cassette tapes, diskettes or hard disks. Applications software will do exactly what you want to do; such as play a game, maintain a mailing list or teach mathematics, etc. Operating systems are programs that manage all the things that are going on inside your computer. Each different brand of computer has its own unique operating system so the software for some will not work on others. (Incompatibility) Different versions of the same software programs are made for each different type of system. However there are several operating systems that are "standard" compatibles and work on many different brands thus making thousands of programs available for most computers. Be sure you buy a computer with an operating system that can handle a great number of the programs available. Determine what you want the computer to do for you; games, accounting, name lists, desktop publishing, etc., then find out what software programs are available for that particular brand.

You can get software for about any kind of game, for Music composition, picture creation and transfers; for all kinds of educational programs, Budgeting, home management, mathematical analysis and engineering. business software includes word processing (which merely means an easy and much better way to type than with a typewriter), spreadsheets for financial analysis and planning, accounting, mailing lists, and just about anything else. For example, using the computer for all accounting activities for a firm is a terrific time and money saver. You can write the checks, enter receipts, accounts payable, accounts receivable, control inventories, prepare payrolls, and make the journal entries. All of these entries are automatically posted to the general ledger, eliminating hand posting altogether, and the trial balance, balance sheet, income statement, quarterly payroll reports, W-2 forms, income tax returns and other financial records are all ready to print out.

Before you settle on what software to purchase you should check out how easy it is to use. Are the instructions and screen help menus easy to understand? How fast does the program run and does it do everything you need? Does the software publisher furnish support and updates, with a number to call in the event of problems? Is the warranty adequate? Can you return the software if it doesn't perform as represented? Is it protected so that it is

difficult or impossible to make a backup copy?

You can get software in the form of cassette tapes, cartridges, diskettes or hard disks. However cassette tapes and cartridges have several disadvantages including the fact that much of the best software is not available on cassettes. Preferably, settle for no less than programs on two sided-double density floppy diskettes. They are easy to use, store a great deal of information, reasonably priced and you can find anything on the disk almost instantly.

#### Programming:

Would you like to write your own software program? Well, they try to tell you that it is easy. Don't you believe it. It takes a great deal of study and hundreds of hours at the computer to learn to the extent you can create any worthwhile programs. Even though it is a challenge and may be an enjoyable pastime there are so many programs available today that unless you are an expert programmer there is little chance you can come up with one that is marketable.

Basic is the most used computer language and is probably the one most valuable for you to learn, but since there are several versions a program that runs on one computer may not run on another brand. Pascal and Assembler are languages which are used mostly by expert programmers. Scientists and engineers can use a language called FORTRAN for best results. Several other languages are used for computer and video games.

#### Taking care of your computer system:

It is good policy to keep your computer and printing equipment covered with anti-static dust free covers when not in use. Keep your screen and other equipment clean and free of dust. Use a head cleaning kit to clean your disk drive in accordance with manufacturers recommendations. Place your computer so that air circulates freely around it. Use three wire plug ins with a ground and get a surge protector to protect your computer from sudden voltage changes. Use a felt tip pen for diskette labels and don't touch the magnetic surface. Keep your diskettes stored away from sunlight or heat and if you spill coffee or drink on a disk, forget it!

Read the small print of your warranty so you will know exactly what to expect in the event of problems. Keep the original boxes and packing materials so that you can safely ship your equipment back for repairs or adjustment.

#### MAKE YOUR HOBBY PAY

It's great to delve into an interesting hobby such as artwork, photography, or crafting paper jewelry. It's even more exciting (and financially rewarding) to turn your special talents into a successful home-based business. That's exactly what Mary Maturi of Cleveland Ohio, Leslie Croyle of Bay Village, Ohio, and Marlene Stephenson of Virginia, Minnesota, did. Each turned her hobby into a cash-generating business complete with paying

customers and a bank account.

These aren't isolated stories. Men and women across the country are joining the ranks of entrepreneurs converting hobbies into money-paying propositions. It's important to note that none of these women originally planned to start a business. On the contrary, interest by others in their hobbies convinced them to sell their work.

#### MARY MATURI'S KILLER WHALES

Mary Maturi markets a line of "Killer Whale" petroglyph tee-shirts, sweat shirts, and note cards both in Alaskan gift shops and in natural history museums in the lower forty-eight states.

It all started when Mary and her family spent a year living in Wrangell, a small town located on Wrangell Island in southeast Alaska. One day Mary ventured down to Petroglyph Beach on the island. Petroglyphs are ancient rock carvings left by an unknown people. Using rice paper and different colored ferns, Mary "rubbed" the petroglyphs to capture their images on paper. When others saw her rubbings, they offered to buy them.

"Peoples interest really surprised me, so I thought of other ways to share the uniqueness of the petroglyphs with out having to deal with their awkward size (some were several feet in length). That's how the "Killer Whale" notecards were born," Mary says. Using her rubbings as a guide, she created smaller scale pen and ink drawings which she took to a printer to get price quotes for paper, printing and envelopes."

The major cost of printing is making the plates. Therefore, it's wise to get price quotes for different runs of 1,000," says Mary. For example, a run of 3,000 cards might cost around 10 cents per card while a run of 6,000 note cards could drop that per unit cost below 8 cents per card. That decreases your card cost by more than 20 percent - quite a savings. Mary also recommends getting bids from several suppliers or even splitting up the order.

While printers know how to price their printing competitively, they don't make their own envelopes. Mary uses the least costly printer that can deliver the quality of paper stock she desires, but buys her envelopes from a warehouse specialist at a savings of nearly 35 percent from prices quoted by printers and other envelope suppliers. It pays to let your fingers do the walking and get competitive quotes.

Once Mary obtained the cost estimates, she visited several gift stores and museums to gather pricing information on competing notecards. She also talked to store owners and museum managers to determine their interest in ordering. After all, it would make no sense to have the notecards printed unless buyers would purchase at prices that can generate a profit.

#### LESLIE CROYLE'S PHOTO-FINISH

Leslie Croyle converted her love of photography and knack for framing into a full-fledged photo decorating business.

Leslie and two friends offered for sale enlarged photos of popular Cleveland events such as the start of the Revco-Cleveland Marathon & 10K, and a spectacular shot of the United Way Kickoff's release of thousands of colored balloons in Public Square.

"We hired several photographers to cover the events and used the best photographs of the bunch," say Leslie. Advertisements for photo promotion proved popular. The trio sold 600 photos at prices ranging from \$8 to \$10 a piece, gathering a bit less than \$5,400 in revenues. Not bad for the first venture. Unfortunately, the combined costs of ads, fees for the photographers ate up the \$5,400 and more. "Although we ended up with a loss, it gave us a lot of market exposure and a proven track record," says Leslie.

Next, Leslie and her friends put together a portfolio of photographs and contacted local businesses. This marketing move landed them a job of photo decorating PJ McIntyre's Restaurant in a Cleveland shopping center. "We tied in the nostalgia theme of the restaurant by contacting area historical societies and arranging to have their vintage photographs copied. It's important to make sure you have the right to reuse the prints. Ask for proper releases and permission to use whatever photos you have copied," advises Leslie.

She stresses the importance of networking industry contacts. A decorating firm they worked with on one project led to additional work when that firm recommended Leslie and her partners to some of their other clients.

Since 1987, the photo decorating business has progressed well since its initial unprofitable photo event ventures. Major projects include photo decorating the guest rooms and suites for the historic Glidden House, which has been made into a unique bed and breakfast, and an all-sports photo motif for the Grand Slam Bar & Restaurant in the refurbished Cleveland Flats night spot area.

"From our humble beginnings, we're now getting into some pretty good sized jobs," says Leslie. "Just keep bumbling along - don't give up."

#### MARLENE STEPHENSON'S PAPER PROFITS

Marlene Stephenson makes her money tearing paper. Actually, her unique sculptured jewelry draws rave reviews wherever she wears it. In fact, people routinely ask to buy her unique designs right off her dress when she appears at public functions.

Marlene is a medical technician by trade, and her paper profits grew out of a coffee get-together group of friends that met once a week to try their hands at new craft ideas. One day one of the ladies brought a book on making paper jewelry. "I just fell in love with it and made a pin and some earrings to wear to a business meeting. Lots of the women at the meeting asked me to make some for them also," says Marlene.

As with any fashion item, Marlene pays attention to color schemes and design. Even though she makes several copies of different designs, each is unique in color, shading, size, and

even texture. Marlene crafts her one-a-kind jewelry to match her customers special outfits.

"With any small business, it's important to link up with other small businesses," stresses Marlene. For example, her local hairdresser lets Marlene display her paper jewelry at her shop. Local gift stores either buy the pins and earrings outright or take them on consignment, which means they pay for the items after they sell. Marlene also teamed up with several other artists to display their work at trade shows.

"Try to tailor your product to the particular market. With the loon as the state bird of Minnesota, my loon pins always do well at local craft shows," she says. Likewise, when Marlene sent samples of her pins to trade show in Anchorage, Alaska, she made some new designs to capture the wilds of Alaska. These pins included a polar bear, Alaska wild flowers, whales, and fish.

What ever your own hobby pursuits, you may be over looking an opportunity to turn personal interests into money-making enterprises. Investigate the possibilities, calculate the costs, analyze the market, and move forward with your plan of action. Take your lead from these three women who have turned hobbies into profits.

#### How To Live Up to Your Greatest Potential

If you want to make more of your talents - live up to your full potential

- you have to learn to use them. You have the power to change your habits
- to acquire new skills and fully use the skills you now have. You can improve your performance, your productivity, and the quality of your whole life.

What makes a high achiever? Is it luck, intelligence, talent, dedication?

All of these things figure in - they all make a difference. But we all know intelligent, talented, hard-working people who do not consider themselves very successful or even happy. And we know people who are not exceptionally bright but seem happy and successful.

So there must be something else, some secret to success. Actually there are several secrets to achieving your peak performance - living up to your full potential.

Your success at business, friendship, love, sports - just about anything you try - is largely determined by your own self-image. Your unhappiness

is something you choose. So, you're thinking no one chooses to be unhappy.

Well, maybe not - but you have to consciously choose to be happy, self-confident, and successful.

Happiness is elusive when we go after it directly. So is self-confidence.

Both seem to be more "side-products" than something you can achieve in and for itself. So how, then, can consciously choosing to be these things be of any value? Well, the secret is to focus on other things.

First, focus on your potential. Begin by making a complete and accurate assessment of your potential. To do this you must take an inventory of yourself - you will make a few lists. Sit down and make a list of all the things you can do well. Be honest with yourself. When that list is done, make a list of all the things you like to do, even if you think you can't do them well. Then, make a list of all the things you would like to do, if you could. Now list your hobbies.

Then, go back to the list of things you can do well. You are probably being much too hard on yourself. Most of us are. We have this little voice in our heads telling us things like: "You're so dumb," or "You can't learn to do that," or "You never do anything right," or similar nasty things. And even worse, we listen to that voice as if it's telling us the gospel truth. So now, shut off that voice - you can do it - and add a few more things to the list of things you can do well. Pretend you are your best friend - it's amazing how much more forgiving and charitable we are with our friends than we are with ourselves. Now that you are your best friend, you should be able to add a few more items to your "do well" list. But do be honest - don't list things you feel you really can't do well.

Next, go to your list of things you like to do but you feel you don't do well. Speaking as your own best friend, do you think there are some things on this list that could be moved to your "do well" list? There probably are. If you like to do it, chances are you do pretty well at it. Treat your hobby list in the same manner.

Next, go to your list of things you would like to do if you could. Ask yourself, "Why can't I do this, if I'd like to?" Put your reasons on another list. OK. So you have a lot of lists going - what good is that going to do? Well, you have just made an assessment of yourself. If you have been truly honest in making these lists, it may even be a fairly accurate assessment. Probably it isn't, but that's OK. This assessment isn't carved in stone. It's subject to change. But for now we will work with what's on the lists. At least you have a place to start.

Look over your lists again. You are focusing on all the things you feel you can't do and the reasons why you can't do them, right? Well, don't. FOCUS ON WHAT YOU CAN DO - FOCUS ON YOUR POTENTIAL. Make it a habit to focus on your strengths. Don't forget to include your undeveloped potential, as well. Train yourself to focus on your potential instead of your limitations.

Now that's not to say that you should ignore your list of reasons for not doing some of the things you would like to do. Not at all! But look at them from the viewpoint of your strengths. For instance, you'd like to play basketball but you think you are too short, so you don't even try. In this case, you are looking at it from the viewpoint of your limitations. Now, when you look at it from the viewpoint of your strengths, you would say, "Well, I may be pretty short to play, BUT I am fast. I can handle the ball well. I have a lot of stamina. I can't change being short, but I can refuse to let my limitations overcome my strengths."

You see the difference? Focusing on your limitations lets those limitations make your decisions for you. Focusing on your strengths lets YOU make the decision. To go back to our example: when you've decided to overcome your height limitations to play basketball - something you really want to do - you will be more determined to develop your strengths to compensate. You will do well, because you will be doing what you really want to do and you will be determined to develop the full potential of your strengths. Very few people concentrate on fully developing any of their strengths. That's where you will have the edge. You know your true disadvantages but your determination, your singleness of purpose, will inspire you to fully develop the talents and skills you do have.

OK. You probably have no interest in playing basketball. Then go to your assessment of yourself. What do you have a major interest in? What do you have a natural aptitude for? Go for it. Devote yourself to something you really like to do. Don't choose something just because you think you could make more money at it than you could by doing something else that you would really rather work at. You won't work to develop your full potential. You may start out with enthusiasm, but you will soon flag. It will be a chore to go to work. You'll probably find yourself hating to go. It'll be difficult to work on improving your skills because you don't like what you are doing. You probably won't be working up to your potential. Your success will probably be limited by your growing lack of interest and your happiness will surely be affected.

If, however, you devote yourself to something you really like to do, you'll enjoy your work, you'll be enthusiastic, and you'll probably find yourself working on improving your skills just for the sheer joy of it. You will be working to reach your full potential. You'll probably soon find you are making more money at this truly interesting occupation than you ever

dreamed possible. And because you like what you are doing, you will be happier.

When you know you are working to your full potential and you enjoy your work and begin to feel successful, you will find that self-confidence and happiness soon follow.

But, you must be realistic and honest with yourself. If you set goals that you can't possibly reach, you are setting yourself up for failure. You will make yourself frustrated and unhappy. The key here is a realistic and honest assessment of your potential.

Although most people will be unnecessarily harsh in their assessments, it is easy to become too hopeful when you start breaking down barriers. If, for instance, you're extremely interested in and fond of music and would love to be a singer, it would be unreasonable to set a singing career as your goal if you can't sing a note (some talents are inborn). But if you are knowledgeable about the music business and would be happy being involved in some other capacity, then it would be reasonable to pursue a career in the business.

Be wary of making otherwise perfectly reasonable goals unattainable because of stringent time frames. When you set a goal, you will most likely set times for achieving certain steps along your way to achieving your final goal. Even if you don't set the time frames formally, you will probably have a pretty good idea of how long you are giving yourself. It's wise to sit down and formally set these goals. Think about it and give yourself reasonable time to achieve them. Make a deal with yourself to view these time limits as flexible.

Don't get discouraged if things don't work out as planned. Sometimes finding our place takes both time and error. All of us experience failures of one magnitude or another. The key is to view the failures as a learning experience - if nothing else, failures teach us what not to do. Remain flexible. As long as you keep focusing on your strengths and potential, the right thing will come along - and probably sooner rather than later. But don't quit at the first sign of boredom. Even if you have truly found your niche, you will not feel enthusiastic 100 percent of the time.

Don't worry about others - don't compare your progress with that of others. No matter how successful you are, there will be someone else who, to you, looks like she's got it made - who looks like she's getting where you want to go faster and easier than you are. Maybe she is. Maybe she isn't. Who cares? Focus on your own achievements. Work to develop your skills



and  
talents to their full potential. Compete with yourself - your short  
term  
goals should be based on today's accomplishments. If you have reached  
Point A today, make Point B your next objective - improve yourself and  
don't worry about the other guy.

OK. You have decided what your ultimate goal is. Make sure it is a  
definitely defined goal. "Someday I want to be famous" just won't cut  
it.  
Define exactly what you want to do. Define a reasonable time frame.  
Know  
what you have to do to get there. You don't need to know every little  
detail, but you do have to have the big picture and many of the details.  
If you have a goal in mind but don't know what it takes to reach it,  
then  
you need to find out. Do some reading, talk to people who know, ask  
questions and LISTEN to the answers. Think that sounds like a lot of  
work?  
Well, remember what you are preparing for - your success and happiness.  
Surely you want to put a little effort into that! Anyway, a little  
research into what it will take for you to reach your goals isn't too  
difficult.

Train yourself into making this "research" the next focus of your life.  
You will be focusing on your strengths, on your purpose, and on learning  
and doing. If you have chosen a goal that is right for you, focusing on  
these things and devoting the necessary time should not be too  
difficult.  
It may take a bit of self-discipline at first, but your determination  
and  
interest will carry you through until the focusing process becomes a  
habit.  
When you have a real desire to accomplish something, initiative should  
only require an occasional shove - but you may need to give it a nudge  
now  
and again.

Get into the habit of visualizing your success. Now sitting around and  
daydreaming in generalizations about it is not what we mean. You need  
to  
visualize specifics. To return to the basketball example, daydreaming  
about being carried off the court on your teammates' shoulders is just  
daydreaming. Picturing in your mind how you will work a play if your  
opponent makes a particular move, picturing your exact response to it,  
is  
visualizing specifics. If you run through specific moves in your mind,  
you  
will be prepared when the need for those moves arises.

Don't be afraid to use your imagination to visualize new and better ways  
to  
accomplish things, as well. Here in your mind, you can try doing things  
in  
ways that are different from the usual. This is a creative process -  
you  
may have heard of creative thinking. Training yourself to think  
creatively  
is largely learning to let your imagination work on methods that are  
different from the "way things have always been done." It's breaking  
away

from the idea that a thing can be done effectively in only one way.  
It's  
looking at a problem from all angles. Just play a game of "what if."  
Ask  
yourself, "What if I did this thing this way?" It's OK to get a little  
crazy sometimes. But, you must also spend some of your thinking time at  
specific visualizations of the moves you need to make to accomplish your  
goals.

Visualizations are important but actual physical practice of your skills  
is  
important, too. Practice the boring little skills that are necessary as  
well as the skills that you enjoy. Don't let yourself rely on just the  
things that come naturally and easy to you. Develop your limited  
potentials as well as those that you feel are your assets.

Work on developing the more general attributes that are important to  
almost  
any goal:

Success comes more easily to those who have a pleasing personality.  
This  
is not to say that you should bend to everyone's wishes or scrape and  
bow.  
Rather, develop an attitude that is respectful of other's opinions but  
true  
to your own beliefs. Be flexible - don't be so rigid that you can't  
accept  
another's opinion when it is superior to your own. Be willing, even  
eager,  
to learn from others. Changing your opinion in light of more facts is a  
sign of strength of character, not weakness. Be willing to extend a  
helpful hand, be a team player. Develop a sense of humor. Be polite  
and  
caring - but be your own person.

Learn to guard against emotional responses. You are susceptible to  
errors  
of judgement when you let your emotions get in the way. Of course,  
everything we do is done based somewhat on our emotions, but strong  
emotions have little place in decision making. Hold your emotions in  
check. Try to delay decisions if you are in an emotional state. Learn  
to  
ignore your emotions and use reasoning to arrive at your decisions.

Develop the habit of enthusiasm. Enthusiasm works like a magnet - it  
draws  
people and success. It's a pleasing personality trait that people like  
to  
be a part of. It seems to be contagious - the people around you become  
enthusiastic, too, and become more cooperative. Enthusiasm sparks  
initiative and singleness of purpose.

We've talked of working to develop habits - the habit of focusing on  
your  
goals, the habit of focusing on your strengths, the habit of learning  
and  
"researching," the habit of visualizing, the habit of enthusiasm. Now  
we  
will talk of habits in a little different light - breaking them. First,  
assess your habits looking for the ones that may be displeasing to

others.

Offensive habits can hold you back from success - they are often a part of an unpleasing personality. Look for things like grumbling or grunting at people instead of answering, gazing at anything but the speaker when conversing, smirking or sneering when you don't agree - anything that is an automatic, displeasing mannerism. It will be very difficult to assess your habits accurately. After all, a habit is something that we do without thinking much about it. You will have to spend some time at this and be very conscious of yourself. Ask someone you trust to help you with this assessment. It may take a lot of work to break yourself of displeasing habits. Try substituting a different, more pleasing behavior for the habit you wish to break.

OK. You have set definite goals, you have a definiteness of purpose, you have researched and know the specific steps to take to achieve the goals, you have resolved to be flexible and to develop a more pleasing personality. Now what?

Well, just because you have a clear purpose, know what you want, are willing to work on developing your potential, and willing to be a nice person, success will not drop into your lap overnight.

You will probably find that one of your first steps in achieving your goals will be to take a job somewhat below where you hope eventually to be. But you've already analyzed the steps to your goal, so you presumably have planned for this. However, you do want to advance and, of course, as quickly as possible.

As you advance toward your goals, you will undoubtedly run up against some difficult people (maybe even difficult bosses), and there will be times you'll need to deal effectively with them. Since you are working on becoming a nice, enthusiastic person and a team player, you already have half the battle won. Your attitude is as important as the other guy's attitude when you are dealing with difficult people.

Always keep in mind that your job is a training field for you. You are getting paid as you learn the things you need to know to achieve your goals. Pretty good deal, right? If you view your job as a paid opportunity to advance toward your goals, you will be an asset to your boss. You will also be a happier, more productive person. Viewing your job in this manner will allow you to view the difficult people you will inevitably need to deal with as an opportunity to grow. From them and the situations they create, you will learn to negotiate with, side-step around, and draw out the best in others without letting yourself become upset. Each time you successfully deal with one of these people you will gain confidence and probably friends to add to your support network. The skill of negotiating with difficult people and the confidence you have gained from these encounters comes in handy when you are ready to ask for a

promotion or raise - even if your boss happens to be a nice person.

Successful negotiation is not a contest of wills - it is working together to solve a problem or come to an agreement. It is an opportunity to learn how others feel about the issue.

Always be prepared. Know who you are talking with. Always know as much as possible about the person. Know about the person's marital status, family, hobbies, education, difficulties, attitudes, and whatever else you can learn. The information may give you an understanding of the person. If you know the circumstances, you will more easily find the most effective way to get your point across. At the very least, the information will make the person seem more familiar which will give you more self-confidence.

Know the issue - not just your opinions about it. Be able to back up your opinions with reasons and research. If you are asking for a promotion, know the demands of the job in question. Know and be honest about how much of the job you are already qualified to do and how much additional training you will need. If you may not be as qualified as someone else applying, be prepared to negotiate for a smaller-than-offered salary until you are fully trained - remember the training is worth a lot to you. Be enthusiastic and focus on your strengths - don't boast but give an a simple and accurate listing of the strengths you feel make you a good candidate for this job. The strengths you cite can and should include specific job related skills, your present accomplishments on the job, your interest in the field (not just this job), your enthusiasm, your ability to work as a team member, and other personal traits that will be an asset on the job.

Always enter into negotiations with a calm and reasonable manner. Don't let emotion and emotional outbursts have a place at the negotiating table.

You must be in control of yourself if you want to get your point across. People are more likely to listen to your views if you present them in a calm and reasonable manner. Present your ideas with conviction but don't

try to intimidate others or be demanding. State your views simply, completely, and orderly. When you are expressing an opinion rather than a

fact, use a qualifying "I think" or "In my opinion." When others are expressing their views, listen carefully and ask questions if something isn't clear. Don't disagree until you are sure you understand their position. When you do disagree, do so in a pleasant non-threatening way.

"I see what you mean, but . . ." or "I can understand why you think that, but . . ." are a couple of good ways to begin a statement of disagreement.

Be courteous and leave them a chance to save face.

Be prepared to face people who are not calm and reasonable. Don't let them get to you. Remain calm and reasonable and even be a little sympathetic.

Let's say you have entered into negotiations with your boss for a raise and he blows up with, "I can't afford to give you a raise. This business isn't exactly a gold mine. Don't you realize how tough times are?" Remain calm.

Put yourself in his shoes. Try to find something you can agree and sympathize with. For instance, look sympathetic and agree, "I know you have a lot of expenses and you work hard to keep this business going.

It must be really difficult for you sometimes." This will probably not be the

response he expects. It will probably take the wind out of his sails. Most likely he will calm down, and since you are sympathetic to his problems, he'll be more willing to listen to you. If you remain calm, reasonable, and sympathetic, he will calm down. When he is calmer, discuss

with him the reasons you are a valuable asset to him. Don't threaten but

calmly and reasonably discuss the bargain a small raise is. With that small raise, he'll be keeping a happy and fully trained employee who knows

the company. When you consider the expense of finding and training another

individual, giving you a raise is a bargain for your boss.

Play "Let's Make A Deal." Be prepared to deal. Don't expect to get everything you want. If you are willing to gracefully make some concessions, you will be more likely to arrive at a satisfactory deal. After all, a negotiation has at least two opposing sides. This means someone else has something they want, too - even if that something is simply to leave things as they are. Arrive at a compromise that everyone

can live with. Remember, you are working at long-range goals, and you may

be negotiating with them again.

Developing your potential more fully is a key to happiness and fulfillment.

Although we have primarily discussed this in terms of a job, these same concepts can be used in many other areas of your life.

In developing your potential to it's fullest, you will want to become a more efficient person - get more done in less time - so you can take full

advantage of the opportunities that you make for yourself. You will note

that most effective, successful people seem to accomplish a great deal. It's true that this is partly due to enthusiasm, but there's more to it.

The first barrier to efficiency is procrastination - putting off getting started. Sometimes you know you are procrastinating. You may not want to

do the task at hand so you keep putting it off until tomorrow. The thing

to do is to look at it from a different angle. If it'll have to be done sometime, tell yourself, "why not do it now, and get it off your back." And that's just where it is! On your back dragging you down. Putting things off makes everything harder to do. If you keep putting things off, you'll soon have several things piling up, and then the sheer number of tasks you have backed up will make it seem impossible to ever get caught up. This affects everything you do try to do.

Sometimes you don't even realize you are putting things off. You may keep yourself extremely busy doing things of little importance to unconsciously give yourself excuses for doing the things you really should be doing. You say to yourself, "Look how busy I am. I just can't get everything done." But the result is the same as when you know you are procrastinating. It soon bogs you down. All you are doing is "running in place."

So how do you beat procrastination?

The first step in beating procrastination is to admit to yourself how often you do it and assessing your methods of doing it. Not very difficult, really, when you become aware of the tactics some of us use to hide from ourselves what we are doing.

The key in overcoming procrastination and becoming more efficient is organization. Plan ahead. Know what you want to accomplish today, this week, and in the long haul.

Make lists. The lists for today will probably be more detailed than the longer-term lists. That's OK. Now look over the lists and rank the tasks in order of importance. Make three or four groupings based on importance. Within each group, star the things you least like to do.

Each day you will have a "today" list to work on. Tackle the tasks that are most important first. If you have several "most important" tasks on your list, take on the least liked things in that grouping before you do the better liked ones. When you have accomplished a task, check it off. You'll be surprised what a good feeling you have when you check things off. What a sense of accomplishment! It's an incentive to do the next task on the list. When you have completed the tasks in the first grouping, begin on the list of next importance. Again do the starred items in that group first. Keep on checking things off as you get them done.

Do you see what is happening? You get the most pressing, least liked tasks out of the way early in the day when you are fresh and rested. As the day goes on you will feel less and less pressure. You have reserved the less important tasks for the end of the day when you will be more tired.

With this system you will have not only increased your efficiency but also reduced some of the stress in your day. Stress can get in the way of efficiency. Your new efficiency will help you develop your potential. It is, in fact, a part of living up to your potential.

Another important part of efficiency is in delegating work. If you are in a position where you have assistants or designated people under your supervision, you need to learn to delegate. If you are not in such a position yet, you still need to know - since you're working on developing your potential you very likely will be some day.

Delegating work is difficult for many people. Some find it hard to ask others to do things for them - others find it hard not to demand that others do tasks. Delegating is an art.

First, you need to realize that the people under your supervision are PEOPLE. Seldom, if ever, should you demand - that takes away self respect. In order to achieve a happy and co-operative crew, you need to help them build self-respect and self-confidence. A happy and co-operative crew is an asset to you. Demands do not promote self-respect and co-operation. Oh, it's probably effective to demand in the short run - but in the long run you will be better off to gain co-operation without demanding.

People who are asked to do a task, are given explanations and clear instructions, and are praised for a job well done will grow in self-respect. They will also respect you as a good supervisor. If you hesitate to ask for their assistance, your crew will feel that you do not trust them or have faith in their abilities. This affects their self-respect and, as a reaction, will affect their respect for you, as well.

When you delegate work, don't delegate just the "junk" tasks. Your crew needs to be given some important tasks to do as well as unimportant ones. The important task gives them a sense of the respect you have for them and the faith you have in their abilities. It's a good idea to save some "junk" tasks for yourself. Perhaps the most respected and effective boss is the one about whom the crew says, "She never gives us anything to do that she wouldn't do herself." Why? Because, by her actions the boss is saying that, though her position is above theirs, she is still just "plain people."

Delegation of tasks is important because you can gain in effectiveness and get more done if you properly supervise a crew. Don't feel embarrassed or hesitant about delegating work. If it helps you to shine, it helps your crew shine, too. A well-run, effective department is a credit to the whole

team. With proper delegating, you can help your crew achieve their potential as well as achieving your own.

All of us have untapped potential - perhaps even areas of genius - that we have neglected to develop. Whether your concept of success has to do with business, love, friendship, sports, a combination of these or something else, more fully developing your potential will help you achieve your goals. If you can learn to assess your potential, set realistic goals, and go after those goals with determination, organization, and purpose, you will use your potential more fully, gain confidence, and be a happier and more successful person.

#### How to Stop a Federal Tax Audit

"You are being audited ..." Words that can strike fear into the hearts of the bravest, most stable and level-headed adults. A federal tax audit is a fearful thing to most of us - and with reason. Instinctively, we know an audit will take time, create frustration, and cost us money. It will make even the most intelligent and honest of us feel inadequate, dumber than a doorknob, and criminal, as well.

Why? Because we know we don't really understand all the rules and regulations of filing our income tax. We know that common sense and intelligence are no guarantee of doing the darn things to the satisfaction of the IRS department. And, we've heard all the horror stories about others' audit experiences.

So, is it as bad as all that? Well, it CAN be bad, but there are things you can do to make the audit a less painful experience. It will, no doubt, still be a fearful and unpleasant thing, but not so bad as you think.

Once you have been notified of the impending audit (no, we didn't say impending doom), you will have to make an effort to keep a sense of humor about it. Because even if it takes some effort, you may as well look at it with a sense of humor. Maintaining a sense of humor will help keep you sane through the ordeal - - - well, process.

OK. You have received your audit notice and we will assume you aren't laughing. What should you do?

First, you will want to decide if this is something you want to face on your own. We advise that you let your accountant or tax preparer in on the audit. In fact, it is best if you let him take care of all the direct communication with the auditor. He is in a better position to be objective about the whole thing (he isn't numb with fear). And it is important to



be  
objective and unemotional with the auditor. Your tax preparer knows  
what  
the auditor wants to hear and will be able to discuss any problems and  
answer the questions more intelligently than you could (he isn't  
speechless  
with terror). If your tax preparer wants to make time to consider the  
tax  
implications of certain information, he can stall for time with a  
simple,  
"I'll have to check that with my client." Besides he is more likely to  
understand the jargon and what the auditor wants.

You will have to gather up all your receipts and other documents and  
make  
sure they are in order. Be sure they are orderly and understandable.  
Your  
tax preparer will likely have to find things for the auditor. It is  
also a  
good idea to go through the records and recalculate. Check the  
mathematics. Check transfers of figures from one record to another.  
Check  
your deductions, in particular. If you find you made a gross error when  
your reported, let your tax preparer know. He will take care of letting  
the auditor know.

But give him only your receipts for each item that is being checked -  
with  
totals. Don't volunteer anything that hasn't been requested! You do  
not  
have to give him cancelled checks, expense logs, or other backup  
material.  
If the auditor decides he needs those, he can get them at a later visit.

If you decide you want to handle this thing on your own, the same thing  
goes for what you say. Give him only the minimum - answer with just a  
yes  
or no. Don't say anything you don't have to. Don't volunteer anything  
or  
defend your answers unless directly questioned about your reasoning.  
But  
if you go alone, you had better be prepared to defend your every entry  
on  
your return. If you have accurate and complete records, the audit will  
be  
easier - it will be much easier to defend your entries. Your tax  
preparer  
will want those records to be accurate and complete, too, if you have  
wisely chosen to have him represent you at the audit.

A great deal depends upon what shape your records are in. An audit  
often  
takes place long after you filed - it can be years after - so if your  
records aren't clear it will be pretty difficult to defend your entries.

An audit can consist of one short visit or several visits over an  
extended  
length of time. It depends upon the thoroughness of the auditor you  
have  
been blessed with and the complexity of the return you filed. The  
auditor

will probably operate in a less specific manner than you would like - you'll probably have to suffer a time of suspense, because the auditor does not have to give you any specific results right away. But you will be notified of those, too, sooner or later.

And what will be the result? That will depend on how accurately your return was completed, how well you handled the audit interviews, and your auditor's opinions about what are allowable deductions (and, of course, whether he and his wife are getting along). And that is why we become so frustrated - some of these matters we have absolutely no control over.

But whatever the result, be prepared to pay. It will, no doubt, cost you money. Sometimes they decide that you did a good job of deciding what to put on the form, so you don't owe them any money. Sometimes they will disallow a deduction or change a depreciation schedule or something so you do owe them some money. Whatever the auditor decides, you will more than likely end up owing your tax preparer for his services. But cheer up! You probably won't end up in jail - unless, of course, you have been deliberately defrauding the government. But even then, a check can usually buy forgiveness.

So an audit isn't the end of the world. But it is tense and frustrating and most of us would like to avoid it.

What are your chances of being audited and how can you reduce them?

Well, every year more than two million "invitations" are sent out to reluctant guest (not many of these invitations are declined, by the way). Most of the time, you are chosen for an audit by a computer program. The computer scans returns looking for items that may indicate an error. Large deductions in comparison to your income is one. Some are randomly selected by the computer that have no questionable items.

Some types of deductions that auditors examine closely are those that you are not likely to have adequate documentation for. If you have had losses due to vandalism, accidents, floods, fires, storms, and the like, you may be picked for an audit.

Since child care is often paid in cash. If you have a large claim for child-care expenses, be sure to document it carefully. Get receipts.

Charitable contributions are carefully checked. For your protection, always ask for receipts to back your claims.

Also, handle auto and entertainment deductions carefully.

If your return has been examined in one of the two previous years for the same items they are questioning this year and that audit resulted in no extra payment, you can call the IRS. The audit will likely be suspended.

Once the computer kicks out your return for audit, will you automatically be audited? No. Your return is reviewed by IRS employees, and they make the final decision on whether or not to audit your return.

You can stop the process right there. In fact, many returns that have been kicked out are never audited. Some people never even know that their return was chosen by the IRS computer for an audit!

So, what can you do to stop the IRS from auditing you? Prepare your return correctly. If it is apparent that there is no error on it, the IRS employee who reviews it will overturn the computer's decision and you will not be audited. If you have unusual or unusually large deductions, include proof of the deductions with your return- receipts from charities, receipts for other deductions - so that the reviewing agent will know that you have not made an error and to convince him that there is no need for examining any further. (When you include receipts or proof with your return, always be sure to keep a copy for your records.) He will overturn the audit - and you will probably never know that the IRS computer picked your number!

#### ARTICLES OF INCORPORATION OF

\_\_\_\_\_ (1) \_\_\_\_\_

The undersigned, for the purpose of forming a corporation under the laws of the State of \_\_\_\_\_ (2) \_\_\_\_\_, do hereby adopt the following articles of incorporation:

#### ARTICLE ONE

The name of the corporation is \_\_\_\_\_ (3) \_\_\_\_\_.

#### ARTICLE TWO

#### CORPORATE DURATION

The duration of the corporation is perpetual.

#### ARTICLE THREE

#### PURPOSE OR PURPOSES

The general purposes for which the corporation is organized are:

1. To engage in the business of \_\_\_\_\_(4)\_\_\_\_\_.
2. To engage in any other trade or business which can, in the opinion of the board of directors of the corporation, be advantageously carried on in connection with or auxiliary to the foregoing business.
3. To do such other things as are incidental to the foregoing or necessary or desirable in order to accomplish the foregoing.

#### ARTICLE FOUR

##### CAPITALIZATION

The aggregate number of shares which the corporation is authorized to issue is \_\_\_\_\_(5)\_\_\_\_\_. Such shares shall be of a single class, and shall have a par value of One Dollar (\$1.00) per share.

#### ARTICLE FIVE

##### REGISTERED OFFICE AND AGENT

The street address of the initial registered office of the corporation is \_\_\_\_\_(6)\_\_\_\_\_, and the name of its initial registered agent at such address, is \_\_\_\_\_(7)\_\_\_\_\_.

#### ARTICLE SIX

##### DIRECTORS

The number of directors constituting the initial board of directors of the corporation is \_\_\_\_\_(8)\_\_\_\_\_. The name and address of each person who is to serve as a member of the initial board of directors is:

Name	Address
(9) _____	(10) _____
(11) _____	(12) _____
(13) _____	(14) _____

#### ARTICLE SEVEN

##### INCORPORATORS

The name and address of each incorporator is:

Name	Address
(15) _____	(16) _____
(17) _____	(18) _____
(19) _____	(20) _____

Executed by the undersigned at on \_\_\_\_\_(21)\_\_\_\_\_.  
\_\_\_\_\_(22)\_\_\_\_\_  
\_\_\_\_\_(23)\_\_\_\_\_  
\_\_\_\_\_(24)\_\_\_\_\_

STATE OF \_\_\_\_\_(25)\_\_\_\_\_)

COUNTY OF \_\_\_\_\_(26)\_\_\_\_\_)

BEFORE ME, the undersigned authority, on  
this \_(27)\_ day of \_\_\_\_\_(28)\_\_\_\_\_,  
19\_(29)\_, personally appeared \_\_\_\_\_(30)\_\_\_\_\_  
to me well known to be the person described in and who  
signed the Foregoing, and acknowledged to me that he  
executed the same freely and voluntarily for the uses  
and purposes therein expressed.

WITNESS my hand and official seal the date aforesaid.

#### INCORPORATING A SMALL BUSINESS "KIT"

##### Summary

If you are the owner\_manager of a small business you may have been wondering about the advisability of incorporating your business, particularly if you are seeking equity capital.

This Aid does not discuss the advantages and disadvantages of the corporate form; its purpose is to acquaint you with some of the basic steps involved once you have decided to incorporate.

This Aid is not to be considered a substitute for professional advice. Legal guidance will insure that (a) the articles of incorporation and the bylaws are tailored to the needs of your particular business enterprise, (b) you understand the various aspects of the tax obligations involved, and (c) you will be in compliance with the State, Vocal, and Federal laws affecting the corporation.

Laws governing the procedure for obtaining a corporate charter vary among States. Detailed information about the requirements of your State can be obtained from the secretary or other official designated to supervise the granting of corporate charters.

##### Choosing the Location

The majority of small and medium\_sized businesses, especially those whose trade is local in nature, find it advisable to obtain their charter from the State in which the greatest part of their

business is conducted.

Out\_of\_State, or "foreign," incorporation often results in the additional payments of taxes and fees in another jurisdiction. Moreover, under the laws of many States the property of a foreign corporation is subject to less favorable treatment, especially in the area of attachment of corporate assets. This legal difference could prove especially hazardous to a small business.

On the other hand, you should look into possible benefits to be gained from incorporation in another State. Such factors as State taxes, restrictions on corporate powers and lines of business in which a company may engage, capital requirements, restrictions upon foreign corporations in your State, and so forth should be taken into consideration in selecting the State of incorporation. For example, you should be aware that some States require a foreign corporation to obtain a certificate to do business in their State. Without such certification the corporation may be deprived of the right to sue in those States.

The fee or organization tax charged for incorporation varies ~greatly from State to State.

#### Certificate Of Incorporation

Generally, the first step in the required procedure is preparation, by the incorporators, of a "certificate of incorporation." Most States used to require that the certificate be prepared by three or more legally qualified persons, but the modern trend is to require only one incorporator. An incorporator may, but not necessarily must, be an individual who will ultimately own stock in the corporation.

For purposes of expediting the filing of articles, "dummy" incorporators are often employed. These dummy incorporators are usually associated with a company that performs this service or with an attorney for the organizers. They typically elect their successors and resign at the meeting of the incorporators.

Many States have a standard certificate of incorporation form which may be used by small businesses. Copies of this form may be obtained from the designated State official who grants charters and, in some States, from local stationers as well. The following information is usually required:

1. The corporate name of the company. Legal requirements generally are (a) that the name chosen must not be so similar to the name of any other corporation authorized to do business in

the State and (b) that the name chosen must not be deceptive so as to mislead the public. In order to be sure that the name you select is suitable, check out the availability of the name through the designated State official in each State in which you intend to do business before drawing up a certificate of incorporation. This check can be made through a service company. In some States, there is a procedure for reserving a name.

2. Purposes for which the corporation is formed. Several States permit very broad language, such as "the purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized." However, most States require more specific language in setting forth the purposes of the corporation. Even where State law does not require it, the better practice is to employ a "specific object" clause which spells out in broad descriptive terms the projected business enterprise. At the same time take care to allow for the possibility of territorial, market, or product expansion. In other words, the language should be broad enough to allow for expansion and

yet specific enough to convey a clear idea of the projected enterprise.

The use of a specific object clause, even where not required by State law, is advisable for several reasons. It will convey to financial institutions a clearer picture of the corporate enterprise and will prevent problems in qualifying the corporation to do business in other jurisdictions. Reference books or certificates of existing corporations can provide examples of such clauses.

3. Length of time for which the corporation is being formed. This may be a period of years or may be perpetual.

4. Names and addresses of incorporators. In certain States one or more of the incorporators is required to be a resident of the State within which the corporation is being organized.

5. Location of the registered office of the corporation in the State of incorporation. If you decide to obtain your charter from another State, you will be required to have an office there. However, instead of establishing an office, you may appoint an agent in that State to act for you. The agent will be required only to represent the corporation, to maintain a duplicate list of stockholders, and to receive or reply to suits brought against the corporation in the State of incorporation.

6. Maximum amount and type of capital stock which the corporation wishes authorization to issue. The proposed capital structure of the corporation should be set forth, including the number

and classification of shares and the rights, preferences, and limitations of each class of stock.

7. Capital required at time of incorporation. Some States require that a specified percentage of the par value of the capital stock be paid in cash and banked to the credit of the corporation before the certificate of incorporation is submitted to the designated State official for approval.

8. Provisions for preemptive rights, if any, to be granted to the stockholders and restrictions, if any, on the transfer of shares.

9. Provisions for regulation of the internal affairs of the corporation.

10. Names and addresses of person who will serve as directors until the first meeting of stockholders or until their successors are elected and qualify.

11. The right to amend, alter, or repeal any provisions

contained in the certificate of incorporation. This right is generally statutory, reserved to a majority or two-thirds of the stockholders. Still, it is customary to make it clear in the certificate.

If the designated State official determines that the name of the proposed corporation is satisfactory, that the certificate contains the necessary information and has been properly executed, and that there is nothing in the certificate or the corporation's proposed activities that violates State law or public policy, the charter will be issued.

#### Officers and Stockholders

Next, the stockholders must meet to complete the incorporation process. This meeting is extremely important. It is usually conducted by an attorney or someone familiar with corporate organizational procedure.

In the meeting the corporate bylaws are adopted and a board of directors is elected. This board of directors in turn will elect the officers who actually will have charge of the operations of the corporation—for example, the president, secretary, and treasurer. In small corporations, members of the board of directors frequently are elected as officers of the corporation.

#### Bylaws

The bylaws of the corporation may repeat some of the provisions of the charter and State statute but usually cover such items as the following:

1. Location of the principal office and other offices of the



corporation.

2. Time, place, and required notice of annual and special meetings of stockholders. Also the necessary quorum and voting privileges of the stockholders.
3. Number of directors, their compensation, their term of office, the method of electing them, and the method of creating or filling vacancies on the board of directors.
4. Time and place of the regular and special director's meetings, as well as the notice and quorum requirements.
5. Method of selecting officers, their titles, duties. terms of office, and salaries.
6. Issuance and form of stock certificates, their transfers and their control in the company books.
7. Dividends, when and by whom they may be declared.
8. The fiscal year, the corporate seal, the authority to sign checks, and the preparation of the annual statement.
9. Procedure for amending the bylaws.

#### Special Tax Laws

At the time of the first meeting of the corporate board of directors and prior to issuance of any shares, you might consider adoption of a plan under a section of the Internal Revenue Code (IRC 1244) that grants ordinary rather than capital treatment of losses on certain "small business stock." Among the requirements of qualification as "section 1244 stock" are (1) the stock must be common stock, (2) the stock must be issued by the corporation for money or other property pursuant to a written plan containing several limitations, and (3) the amount of contribution received for the stock and equity capital of the corporation must not exceed maximum dollar limits.

You should be aware, also, of the possibility of electing subchapter S status (IRS 1371\_1379). The purpose of subchapter S is to permit a "small business corporation" to elect to have its income taxed to the shareholders as if the corporation were a partnership. One objective is to overcome the double\_tax feature of the present system of taxation of corporate income. Another purpose is to permit the shareholders to have the benefit of offsetting business losses by the corporation against the income of the shareholders.

Among the qualifying requirements for electing and maintaining

"subchapter S" eligibility are that the corporation has no more than 10 shareholders, all of whom are individuals or estates; that there be no nonresident alien shareholders; that there be only one class of outstanding stock; that all shareholders consent to the election; and that a specified portion of the corporation's receipts be derived from actual business activity rather than passive investments. No limit is placed on the size of the corporation's income and assets.

If you plan to transfer property to a corporation in exchange for stock, you should realize that such a transfer is a taxable transaction unless the transfer complies with the provisions of IRC section 351.

#### Other Considerations

If your business is at present a sole proprietorship or partnership, you will need to secure a new taxpayer identification number and unemployment insurance account. You should find out in advance whether present licenses and leases will be transferable to the new corporate entity.

#### SAMPLE ARTICLES OF INCORPORATION

#### PLUS INSTRUCTIONS

Write or call your state office (see State Requirements for General Business Corporations) requesting incorporating forms, fee schedule and incorporation information. Complete the forms and return them to the state office along with the necessary fees. The state office will record your incorporation and return to you, one copy showing that it has been recorded along with a Certificate of Incorporation or Charter, as the case may be.

The following is a completed copy of Articles of Incorporation for you to use as a model. The forms used to incorporate vary somewhat from state to state, but most of them are close to this model.

#### Articles of Incorporation

The undersigned natural person (s) of the age of eighteen years or more for the purpose of forming a corporation under The General and Business Corporation Law of \_\_\_\_\_ adopt the following Articles of Incorporation:

## ARTICLE ONE

The name of the corporation is: John Doe Mail Order, Inc.

## ARTICLE TWO

The address, including street and number, if any, of the corporation's initial registered office in this state is:

1112 Main Street, Any Town, USA 00000

and the name of its initial agent at such address is: John Doe

## ARTICLE THREE

The aggregate number, class and par value, if any, of shares which the corporation shall have authority to issue shall be:

The aggregate number of shares of stock which the corporation shall have authority to issue is 1,000 with the class of stock being common with no par value.

ARTICLE ONE: Here fill in the name of your corporation.

ARTICLE TWO: Here give the street address of the corporations registered office along with the name of the corporations initial agent. The initial agent is the person upon whom any process, notice or demand required or permitted by law may be served for the corporation.

ARTICLE THREE: The first paragraph of Article Three requests the number, class and par value of the shares of stock that the corporation shall issue.

Number: It is best to issue the maximum number of shares of stock that will give you the lowest incorporating fee. Since incorporating fees vary from state to state, it is best to check with your state to find out the exact number of shares of stock to issue that will give you the lowest incorporating fee. In the example, we have used 1,000 shares, this is about the average number.

Class: The two most widely used classes of shares of stock are common stock and preferred stock. Common stock is the voting stock of the corporation. Preferred stock usually does not have any voting privileges but is given some preference over common stock, such as, "will be

paid a dividend of so many dollars per share before the common stock can receive any dividends." Most small corporations issue only common stock.

Par Value: The value of a share of stock can vary, depending on the overall worth of the corporation, so the "par value" of the share of stock becomes misleading and unimportant. A stock certificate with "Par Value \$100.00 Per Share" printed on it could be worth 10¢ per share, or it could be worth \$10,000.00 per share depending on the financial condition of the corporation at the time of the sale. The same holds true for a stock certificate printed "No Par Value."

It is usually best for a small corporation to issue no par value stock, since it requires less paper work.

The second paragraph of Article Three is for corporations who are issuing different classes of stock. Since your corporation will be a small one, at least in the beginning, just write the word "none" in this space.

ARTICLE ONE: Here fill in the name of your corporation.

ARTICLE TWO: Here give the street address of the corporations registered office along with the name of the corporations initial agent. The initial agent is the person upon whom any process, notice or demand required or permitted by law may be served for the corporation.

ARTICLE THREE: The first paragraph of Article Three requests the number, class and par value of the shares of stock that the corporation shall issue.

Number: It is best to issue the maximum number of shares of stock that will give you the lowest incorporating fee. Since incorporating fees vary from state to state, it is best to check with your state to find out the exact number of shares of stock to issue that will give you the lowest incorporating fee. In the example, we have used 1,000 shares, this is about the average number.

Class: The two most widely used classes of shares of stock are common stock and preferred stock. Common stock is the voting stock of the corporation. Preferred stock usually does not have any voting privileges but is given some preference over common stock, such as, "will be paid a dividend of so many dollars per share before the common stock can receive any

dividends." Most small corporations issue only common stock.

Par Value: The value of a share of stock can vary, depending on the overall worth of the corporation, so the "par value" of the share of stock becomes misleading and unimportant. A stock certificate with "Par Value \$100.00 Per Share" printed on it could be worth 10¢ per share, or it could be worth \$10,000.00 per share depending on the financial condition of the corporation at the time of the sale. The same holds true for a stock certificate printed "No Par Value."

It is usually best for a small corporation to issue no par value stock, since it requires less paper work.

The second paragraph of Article Three is for corporations who are issuing different classes of stock. Since your corporation will be a small one, at least in the beginning, just write the word "none" in this space.

The preferences, qualifications, limitations, restrictions, and the special or relative rights, including convertible rights, if any, in respect of the shares of each class are as follows:

#### ARTICLE FOUR

The preemptive right of a shareholder to acquire additional shares is limited or none.  
!~ONE

#### ARTICLE FIVE

The name and place of residence of each incorporator is as follows:

John Doe  
Jane Doe  
Jean Doe

Street  
1112 Main Street  
1112 Main Street  
2221 First Street

#### ARTICLE SIX

City,,  
Any Town, USA 00000  
Any Town, USA 00000  
Any Town, USA 00000

The number of directors to constitute the first board of directors is

three (3) . Thereafter the number of directors shall be fixed by or in the manner provided in the laws. Any changes in the number shall be reported to the Secretary of State within thirty calendar days of such change.

#### ARTICLE SEVEN

The duration of the corporation is Perpetual

#### ARTICLE EIGHT

The corporation is formed for the following purposes:

To carry on any and all of a mail order business and all other legal acts permitted general and business corporations.

WITNESS WHEREOF, these Articles of Incorporation have been signed this  
—

ARTICLE FOUR: Deals with the stockholders rights to acquire additional shares of stock in the corporation. Since most small corporations issue common stock and the rights of a stockholder to acquire additional shares of stock are granted by law in most states, just insert the word "none".

ARTICLE FIVE: Here fill in the name and complete address of each incorporator.

ARTICLE SIX: Requests the number of directors that will make up the first board of directors. In our example, we have used three (3) directors, which is the minimum number in some states. If your state requires more than one (1) director, you can use your spouse, family member or a close friend as the other directors.

ARTICLE SEVEN: Asks the duration of the corporation. Except for the State of Mississippi which is 99 years, all the states allow perpetual duration to all corporations. Insert the word "perpetual" or the number of years you wish the corporation to exist.

ARTICLE EIGHT: Asks the purpose for which the corporation is organized. Most states give broad general powers to corporations, therefore, list the specific purpose for which the corporation is being organized, such as, "to carry on any and all of a mail order business and all other legal acts permitted general and business corporations." This statement also applies to any

other type of business you might want to incorporate.

BY \_ LAW S  
OF

## ARTICLE I \_ OFFICES

### Section 1 \_ Principal Office:

The principal office of the corporation shall be located and maintained  
in the city of  
in the count~ of

### Section 2 \_ Other Offices:

in the state of

The corporation may also have other offices, as determined by the Board  
of Directors, either  
within or without the state of and either within or without the United  
States.

## ARTICLE II \_ MEETING OF STOCKHOLDERS

### Section 1 \_ Annual MeetinPs:

The annual meeting of the stockholders for the purpose of electing  
directors of the corporation,  
and for any other business as may properly come before the meeting,  
shall be held within five  
months of the close of the fiscal year of the corporation.

### Section 2 \_ SDecial Meetings:

Special meetings of the stockholders for any purpose as stated in the  
notice may be called at any  
time by the Board of Directors, or by the President of the corporation.  
At written request of a  
majority of the stockholders entitled to vote, special meetings shall be  
called by the President or  
the Secretary.

### Section 3 \_ Place of Meetings:

All meetings of stockholders of the corporation shall be held at the  
principal office of the  
corporation or at any other place as stated in the notices of such  
meetings as may be determined  
by the Board of Directors.

### Section 4 \_ Notice of meetings:

(a) Written notice of each meeting, stating the place where, the date  
and time when said meeting  
is to be held, shall be given each stockholder entitled to vote at such  
meeting whether annual or

special, not less than ten days or more than fifty days before such meeting is to be held. Notice of such meetings, whether annual or special, shall also state the general nature for which the meeting is called.

(b) Notices of all meetings shall be written or printed and delivered either personally or by mail to the stockholders address as it appears on the records of the corporation. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail in a sealed envelope with prepaid postage affixed thereon.

#### Section 5 \_ Quorum:

Except as otherwise mandatory by law, or by the Articles of Incorporation, or as otherwise provided by these By-Laws, at any and all annual or special meetings of the stockholders of the corporation, the presence, either in person or by proxy, of stockholders holding a majority amount of the stock of the corporation, who are entitled to vote at such meeting, shall constitute a quorum for the purpose of transacting any business. At any annual or special meeting of stockholders, a quorum has not been established, the stockholders entitled to vote at such meeting, by a majority vote, may adjourn such meeting by an announcement at the meeting. At any such adjourned meeting at which a quorum has been established, the stockholders may validly proceed to transact any business which might have been trans acted at the meeting originally noticed.

#### Section 6 \_ Voting:

(a) Subject to and in accordance with the Articles of Incorporation, these By-Laws, or by statute, each stockholder entitled to vote, shall be entitled to one vote for each share of stock held by such stock holder.

(b) Each stockholder entitled to vote at any meeting, may vote by proxy, when submitted in writing of such stockholder wishing to do so.

(c) No proxy shall be voted after eleven months from the date of its implementation, unless otherwise stated for a longer peroid of time.

(d) ~11 corporate action to be voted on, shall be decided by a majority of the votes cast.

#### Section 7 \_ tockholder List:

The officer in charge of the stock ledger for the corporation shall make a full list of all stockholders entitled to vote at corporation meetings. Said officer shall set in order alphabet ically, each stockholders name, address and the number of shares of stock held by



each. The stockholder list shall be completed and open for examination ten days before meetings. Any stockholder wanting to look over the stockholder list may do so during normal business hours at the principal office of the corporation, or at such other place or places where said meeting is to be held. The stockholder list shall be kept open and available for inspection by stockholders at such meetings for the entire time of the meetings.

#### Section 8 \_ Action Without Meeting:

Any corporate action which may be taken at a meeting requiring the vote of stockholders at a meeting thereof, may be taken without a meeting, if all the stockholders entitled to vote on the subject matter if such meeting were held, shall consent in writing to the action being taken.

### ARTICLE III \_ BOARD OF DIRECTORS

#### Section 1 \_ Number Election and Term:

(a) The number of directors of the corporation shall be as determined by a majority vote of the full Board of Directors. The number of directors may not be less than three, unless all the shares of stock of the corporation are owned beneficially and of \_\_\_\_\_ by either one or two stockholders, then the number of directors may not be less than the number of stockholders.

(b) Each director shall be elected at the annual meeting of the stockholders by a majority vote of stockholders entitled to vote thereat, either in person or by proxy.

ors

(c) Each director shall serve in office until the next annual meeting of stockholders for the purpose of electing directors, and shall serve until such director's successor shall be elected and qualified, or until any such director's death, resignation or removal from office.

#### Section 2 \_ General Powers:

The Board of Directors shall be responsible for the business and affairs of the corporation.

#### Section 3 \_ Chairman:

The Chairman of the Board of Directors, provided one is elected, shall preside at all the meetings of the Board of Directors and shall have such powers and duties as generally pertain to his respective office.

#### Section 4 \_ Annual and Regular Meetings:

(a) The Annual meeting of the Board of Directors of the corporation shall be held immediately after the annual meeting of the stockholders, at the same place of the annual stockholders meeting.

(b) The Board of Directors, shall from time to time hold other regular meetings and may provide by resolution, the time and place for the holding of such meeting thereof.

#### Section 5 \_ Special meetings:

Special meetings of the Board of Directors may be called by the President, or at the request of any one or more of the Directors of the corporation. The time and place of such special meeting shall be specified in the notices of such meeting thereof.

#### Section 6 \_ Notice of Meetings:

(a) Annual meetings of the Board of Directors shall be held without any other notice than this By-Law.

(b) Notice shall be given at least five days before any special meeting of the Board is to be held, to each Director of the corporation. If the place of such special meeting held is designated outside the state of \_\_\_\_\_, days notice shall be given.

:~n ~ ; t; nn~l f;~T~

(c) Written notice of any such special meeting shall be delivered personally or mailed to each Director at his address as it appears on the records of the corporation. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail in a sealed envelope with prepaid postage affixed thereon.

#### Section 7 \_ Quorum and Adjournments

.  
At meetings of the Board of Directors, the presence of a majority of Directors shall constitute a quorum, for the transaction of business. If less than a majority of directors are present at said meeting, a majority of Directors present may adjourn such meeting by an announcement at the meeting.

#### Section 8 \_ Manner of Actions:

At any meeting of the Board of Directors where a quorum has been established, the act of the

majority of the Directors present at such meeting, shall be the act of the Board of Directors.

#### Section 9 \_ Vacancies:

If the position of any Director becomes vacant for any reason, the remaining Directors by a majority, though less than a quorum, may fill such vacancy or vacancies by appointment of such qualified person or persons to fill the vacant position for the unexpired term and until the next annual meeting of the stockholders for the purpose of electing directors of the corporation.

#### Section 10 \_ Resignations:

Any director or officer may resign at any time. Written notice of any resignation must be given to the Board of Directors, the President, or the Secretary of the corporation. Any such resignation shall take effect at the time of receipt by the Board of Directors, the President, or the Secretary, and acceptance of such resignation shall not be necessary to make it effective.

The removal of any director may be done with or without cause and at any time by a majority vote of the stockholders entitled to vote at a special meeting called for that purpose.

#### Section 12 \_ Compensation:

Stated compensation shall not be received by any director for their services, but by resolution of the Board of Directors, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the Board of Directors, provided however, that nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

### ARTICLE IV \_ OFFICERS

#### Section 1 \_ Number and Qualifications:

(a) The corporation shall have such officers consisting of a President, a Secretary and a Treasurer. The Board of Directors may also elect such other officers including a Chairman of the Board, one or more Vice Presidents, Assistant Secretaries, and Assistant Treasurers as it may from time to time deem necessary for the operation of the corporation.

(b) With the exception of the office of the Chairman of the Board of Directors, any other officer may be, but need not be, a director of the corporation, and the same person may hold two or

more offices.

## Section 2 \_ Election and Term:

(a) The officers of the corporation shall be elected by the Board of Directors at the first regular meeting of the Board after each annual meeting of the stockholders.

(b) Each officer shall hold office until his successor has been duly elected and has qualified, or until his death, resignation or removal from office.

## Section 3 \_ Removal:

The Board of Directors, by a majority vote may remove any officer of the corporation, either with or without cause and elect a successor to fill the position of any officer who has been removed.

The Board of Directors, by a majority vote, may fill a vacancy in any office due to a death, resignation, removal, disqualification or any other reason for the unexpired portion of the term.

## Section 5 \_ President:

The President shall be the chief executive officer of the corporation and shall supervise, control and manage the general business operations of the corporation. The President shall preside at all meetings of the stockholders, and in the absence of the Chairman of the Board he shall preside at all meetings of the Board of Directors. The President, along with any other officer authorized by the Board of Directors, shall sign documents in behalf of the corporation and shall have and perform such other duties as may be determined by the Board of Directors.

## Section 6 \_ Vice\_Presidents:

Each Vice\_President shall perform such duties as may be prescribed and given to him as from time to time shall be assigned by the Board of Directors.

## Section 7 \_ Treasurer

The Treasurer shall be in charge and have custody of all funds and securities owned by the corporation. He shall give accurate and written account for all moneys received and paid out by the corporation, in record books of the corporation and shall deposit all moneys in the name of the corporation in depositories designated by the Board of Directors.

## Section 8 \_ Secretary:

The Secretary shall give notice, whether annual regular or special of meetings of the stockholders

and of the Board of Directors as prescribed by these By\_Laws or as required by law. He shall also record the minutes of stockholders' and of Board of Directors' meetings in books provided by the corporation for that purpose. He shall affix the seal of the corporation to all documents that require it, and perform all such duties as may be assigned him by the Board of Directors.

#### Section 9 \_ Assistant Treasurers and Assistant Secretaries:

The assistant Treasurers and assistant Secretaries shall perform such duties as assigned to them as from time to time may be prescribed by the Board of Directors.

#### Section 10 \_ Bonds and Surety:

If required by the Board of Directors, any officer or person acting in behalf of the corporation, shall give a bond for the faithful discharge of his duties in such amount and with such surety prescribed by the Board of Directors.

### ARTICLE V \_ SHARES OF STOCK

#### Section 1 \_ Certificates of Stock:

Certificates of shares of stock of the corporation shall be in such form as decided by the Board of Directors. Each stockholder of the corporation shall be entitled to have a certificate certifying the number of shares of stock held by said stockholder. Each certificate of stock shall be consecutively numbered and the name of the stock holder owning the shares along with the number of shares of stock owned and the date of issue shall be registered on the books of the corporation. Each certificate shall be signed by the Chairman of the Board or the President or Vice\_President and by the Secretary or Treasurer, or any assistant Secretary or assistant Treasurer, and shall have the corporate seal affixed.

#### Section 2 \_ Lost or Destroyed Certificates:

Certificates of stock alleged to have been lost or destroyed may be replaced by the issuance of new certificates of stock and upon such terms and indemnity to the corporation as y be prescribed by the Board of Directors.

Transfers or shares of the corporation shall be transrerable only on the record books of the corporation by the holders of shares thereof, either in person or by their duly authorized attorneys, and upon surrender, to the corporation, of the old certificates for cancellation. The corporation shall deem the person in whose name the shares of stock are recorded on the books

of the corporation as the absolute owner of said shares of stock for any and all purposes.

#### Section 4 \_ Record Date:

For the purpose of determining the stockholders entitled to notice of, or to vote at, any meeting of stockholders, or stockholders entitled to receive payment of any dividends, or for the allotment of any rights, or to consent to any corporate action in writing without a meeting, or to exercise any other such rights for the purpose of any corporate action, the Board of Directors, in lieu of closing the stock transfer books, may fix, in advance, a record date of not more than fifty days, nor less than ten days before the day of such meeting is to be held.

#### ARTICLE VI \_ ~ISCAL YEAR

The fiscal year of the corporation shall be determined by the Board of Directors, and subject to applicable law.

#### ARTICLE VII \_ SEAL

The seal of the corporation shall be circular in form and shall have inscribed the name of the corporation and the words "CORPORATE SEAL" state of " ".

#### ARTICLE VIII \_ DIVIDENDS

Subject to applicable law, the Board of Directors may, declare dividends upon its outstanding shares of stock, and the corporation may pay dividends on such shares of stock out of funds available therefor, and upon such terms and conditions as may be determined from time to time by the Board of Directors.

#### ARTICLE IX \_ AMENDMENTS

These By\_Laws may be altered, amended or repealed and new By\_Laws may be made at any annual meeting of the stockholders, or at any special meeting of stockholders, provided notice for that purpose is contained in the notice of such special meeting, and by a majority vote of the stockholders entitled to vote thereat.

#### ACTION BY INCORPORATORS OF

I (We), the undersigned, being the sole (all) incorporator (s) of

a (YOUR STATE) corporation, do hereby select and  
appoint

to act as the (sole) director (s) of the above named corporation,  
to hold office until the first annual meeting of the stockholder (s)  
of the above named corporation or until their (his) (her) successor(s)  
shall be elected or appointed and shall qualify.

Incorporator

Incorporator

Incorporator

Dated:

This form may be used by one or more incorporators.

~AIVER OF ~OTICE OF FIRST

~EETI~G OF BOARD OF DIRECTORS OF

We, the undersigned, being all the directors of  
a (YOUR STATE) corporation,  
hereby waive all notice and consent and  
agree that the first meeting  
of the Board of Directors be held at  
in the city of

in the state of of

h e r~

, 19 at the hour of

~t. for

the purpose of electing officers and the transaction of any other  
business as may lawfully come  
before said meeting.

Director

Director

Dated:

~

MINUTES OF FIRST ORGANIZATIONAL MEETING  
OF BOARD OF DIRECTORS OF

(NAME OF CORPORATION)

A ~ YORK STATE  
~

(ENTER THE WORD CORPORATION)

The first organizational meeting of the Board of Directors  
of completing the organization of its affairs, was held at:

for the purpose

in the city of

on the                      day of                      , 19      , at the hour of  
    ~    .

The following were present:

being all the directors of the above named corporation.

One of the directors called the meeting to order. Upon motion  
duly made, seconded, and  
unanimously carried, was elected Chairman of the meeting and \_was  
elected Secretary of the  
meeting.

The Chairman then called on the Secretary to read a written  
Waiver of Notice of this meeting,  
that was signed by all the directors and ordered said Waiver of Notice



to be appended to these minutes.

CERTIFICATE OF INCORPORATION

The Secretary then presented and .

the meeting a copy of the Certificate of Incorporation of the corporation, and reported that on the day of \_

, 19 , the original thereof was duly filed in the office of the (NAME OF

OFFICE OF THE SECRETARY OF STATE) the official filing date of:

and had been assigned and the official filing number of:

The Secretary was then directed to append to these minutes a certified copy of said Certificate of Incorporation, showing the filing date and filing number along with the original receipt showing payment of the organization filing fee issued by the office of the

(NAME OF OFFICE ISSUING CERTIFICATE)

BY-LAWS

The Chairman then presented a set of By-Laws to govern and regulate the business and affairs of the corporation.

Upon motion duly made, seconded, and unanimously carried, the following resolution was adopted:

RESOLVED, that the By-Laws presented to this meeting in the form adopted by the Board of Directors, be and the same are hereby adopted as and for the By-Laws of this corporation.

The Secretary was then directed to cause said By-Laws to be inserted in the minute book of the corporation immediately following the minutes.

#### CORPORATE SEAL

The Secretary then presented to the meeting a seal to be used as the seal of the corporation, with said seal making the following impression:

(SEAL)

Upon motion duly made, seconded, and unanimously carried, the following resolution was adopted:

RESOLVED, that the seal now presented at this meeting be, and the same is hereby adopted as the corporate seal of this corporation.

#### STOCK CERTIFICATES

The Secretary then presented to the meeting a form of certificate for shares of stock of the corporation.

Upon motion duly made, seconded, and unanimously carried, the following resolution was adopted:

RESOLVED, that the form of certificate representing shares of stock of the corporation be, and it hereby is approved and adopted as the certificate for shares of stock of the corporation and that a specimen of said certificate shall be inserted in the minute book following the minutes of this meeting.

The Chairman then stated that the Board of Directors are authorized and directed to issue and sell the shares of stock of the corporation.

Upon motion duly made, seconded, and unanimously carried, the following resolution was adopted:

RESOLVED, that the Board of Directors or the President or Vice\_President and the Secretary of the corporation be, and are hereby authorized to issue and sell from

time to time, the shares of stock of the corporation, and accept in payment, cash or other real property, or labor done, or services performed, and in compliance with all of the terms and conditions of the state securities law.

#### BANK RESOLUTION

The Chairman then suggested that the Treasurer open a bank account for the handling of funds and other securities of the corporation.

Upon motion duly made, seconded, and unanimously carried, the following resolution was adopted:

RESOLVED, that the Treasurer be and hereby is authorized and directed to open a bank account in the name of this corporation with the following named bank or financial institution:

#### ORGANIZATIONAL E~PENSES

The Chairman then suggested that the corporation provide the payment of organizational expenses of the corporation.

Upon motion duly made, seconded, and unanimously carried. the following resolution was adopted:

RESOLVED, that the Treasurer be and hereby is authorized and directed to pay, out of funds of the corporation, all expenses and charges that have arised out of the organization of this corporation.

#### MISCELLANEOUS BUSINESS

The Chairman then asked if there was any other business to come before this meeting.

ADJOURNMENT

There being no further business to come before the meeting, on motion duly made, seconded, and unanimously carried, the meeting was adjourned.

CHA I RMAN

APPROVED

S ECRETARY

WAIVER OF NOTICE TO HOIDING  
OF FIRST MEETING OF STOCKHOLDERS OF

(NAME OF CORPORATION)

A (YOUR STATE)

\_corporation

We, the undersigned, being all of the stockholders of the above named corporation, DO  
HEREBY agree and consent to holding the first meeting of the stockholders of said corporation  
at:

(ADDRESS OF MEETING)

for the purpose of eLecting officers and directors, ratifying its Articles of Incorporation and  
by\_laws, and for the transaction of all such other business as may be brought before said  
meeting, and DO HEREBY waive all notice of said meeting thereof.

Dated: \_

STOCKHOLDER

STOCKHOLDER

STOCKHOLDER

STOCKHOLDER

NOTICE OF FIRST MEETING  
OF STOCKHOIDERS OF

(name of corporation)

Notice is herein stated and given that the first meeting of the stockholders of (name of corporation) for the purpose of electing officers and the transaction thereat of all such business as may lawfully come before said meeting, will be held at:

PLACE OF MEETING (address)  
(city)  
(state)

DATE OF MEETING (day) (month) (hour) 1~ M

day of 1q

secretary

MINUTES OF FIRST MEETING OF  
STOCKHOLDERS O~

(NAME OF CORPORATION)

The first meeting of the stockholders of the above named corporation was held at (~n~F~) in the city of day of o'clock

\_ in the State of

The meeting was duly called to order by the president of the corporation, who read the agenda.

The secretary then read the list of stockholders as their names appeared in the record book of the corporation, and by a show of hands vote, the secretary declared that a quorum of the stockholders was present.

The secretary then read a Waiver of Notice of Meeting, which had

been signed by all of the  
stockholders of the corporation, and on motion duly made, seconded, and  
carried, said Waiver of  
notice of meeting was appended to the minutes of this meeting.

The president then called on the secretary to read the minutes of  
the organization meeting of  
the board of directors and the minutes of the first meeting of the board  
of directors, and

Upon motion duly made, seconded, and unanimously carried, the  
following resolutions were  
adopted:

WHEREAS, the minutes of the organizational meeting of the  
corporation and the minutes of  
the first meeting of the board of directors have been read at this  
meeting: and

WHEREAS, the by-laws to govern the conduct of the corporation were  
adopted at the first  
meeting of the board of directors, it is

RESOLVED, that the stockholders of the corporation hereby approve,  
ratify, and adopt said  
by-laws as the by-laws of the corporation, and it is

FURTHER RESOLVED, that all of the action taken and the decisions  
that were made at the  
organization meeting and at the first meeting of the board of directors  
hereby are approved  
ratified, and adopted, and it is

FURTHER RESOLVED, that the signing of these minutes by the  
stockholders of this corpo  
ration shall constitute full approval of all actions herein stated in  
these minutes.

There being no further business to come before this meeting, on  
motion duly made,  
seconded, and carried, the meeting was adjourned.

Stockholders:

NOTICE OF ANNUAL MEETING OF

( NAME OF CORPORATION )

Notice is herein stated and given that the annual meeting

of the stockholders of

( NAME OF CORPORATION ) for the  
transaction thereat of any such  
business as may lawfully come before this meeting for consideration,  
will be held at:

( ADDRESS ) in the city of \_ ;n thP ct~t~ f~f  
on the

Date day of

SECRETARY

at the hour of \_ day o~  
o'clock

19\_.

State of \_ 19

MINUTES OF ANNUAL MEETING OF  
STOCKHOLDERS OF

The annual meeting of the stockholders of \_  
for the year 19  
in the city of \_

at o'clock

was held at

M., pursuant to a Waiver  
of Notice signed by all the stockholders  
and appended to the minutes of this meeting.

The meeting was called to order by the president, and by a show  
of hands vote, it was  
declared that a quorum of the stockholders was present.

The president presented his annual report of the corpo\_\_ ration's  
business activity for the  
previous year, and the plans of the coming year. On motion made,





being all the directors of the corporation.  
for the year 19  
in the city of

The chairman called for the election of officers, and the following persons were elected to the office set opposite their respective names, to hold office for the term provided in the by\_laws:

NAME

OFFICE  
President  
Vice\_President  
Treasurer  
Secretary

By unanimous vote the following salaries were fixed:

N \_ TITLE

AMOUNT

effective until the further order of the board of directors.

There being no further business to come before this meeting, on motion duly made, seconded, and carried, the meeting was adjourned.

Date:

\_ day of \_

APPROVED:

Financial Management: How To Make a Go Of Your Business

Produced in cooperation with the American Association of Community and Junior Colleges

Charles Liner, SEA Contracting Officer's Technical Representative  
Judy Nye, Project Director, AACJC  
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## About the Author

Linda Howarth Mackay has many years' banking experience gained working in a rural community bank and two large regional banks. Her expertise is in commercial and agricultural lending and in correspondent banking. She is also knowledgeable in the regulation of commercial bank lending practices, with an extensive background in the establishment of policy and procedures and in portfolio administration.

A graduate of Indiana University, Bloomington, Indiana, and numerous banking, accounting, and lending seminars, she is now president of Howarth Mackay, Incorporated, a company providing financial consultation to businesses, financial institutions, and professional individuals.

## Introduction

This booklet was designed to equip instructors of the National Small Business Training Network course "Financial Management: How to Make a Go of Your Business" with the information required to acquaint the small business owner/manager with the basic tools of sound financial management. It supplements the course guide materials; it is not intended to replace their use by the instructor.

The booklet may also be used by anyone interested in learning the concepts of financial management.

## I. The Necessity of Financial Planning

There is one simple reason to understand and observe financial planning in your business--to avoid failure. Eight of ten new businesses fail primarily because of the lack of good financial planning.

Financial planning affects how and on what terms you will be able to attract the funding required to establish, maintain, and expand your business. Financial planning determines the raw materials you can afford to buy, the products you will be able to produce, and whether or not you will be able to market them efficiently. It affects the human and physical resources you will be able to acquire to operate your business. It will be a major determinant of whether or not you will be able to make your hard work profitable.

This manual provides an overview of the essential components of financial planning and management. Used wisely, it will make the reader--the small business owner/manager--familiar enough with the fundamentals to have a fighting chance of success in today's highly competitive business environment.

A clearly conceived, well documented financial plan, establishing goals and including the use of Pro Forma Statements and Budgets to ensure financial control, will demonstrate not only that you know what you want to do, but that you know how to accomplish it. This demonstration is essential to attract the capital required by your business from creditors and investors.

#### What Is Financial Management?

Very simply stated, financial management is the use of financial statements that reflect the financial condition of a business to identify its relative strengths and weaknesses. It enables you to plan, using projections, future financial performance for capital, asset, and personnel requirements to maximize the return on shareholders' investment.

#### Tools of Financial Planning

This manual introduces the tools required to prepare a financial plan for your business's development, including the following:

- \* Basic Financial Statements--the Balance Sheet and Statement of Income
- \* Ratio Analysis--a means by which individual business performance is compared to similar businesses in the same category
- \* The Pro Forma Statement of Income--a method used to forecast future profitability
- \* Break-Even Analysis--a method allowing the small business person to calculate the sales level at which a business recovers all its costs or expenses
- \* The Cash Flow Statement--also known as the Budget identifies the flow of cash into and out of the business
- \* Pricing formulas and policies--used to calculate profitable selling prices for products and services
- \* Types and sources of capital available to finance business operations
- \* Short- and long-term planning considerations necessary to maximize profits

The business owner/manager who understands these concepts and uses them effectively to control the evolution of the business is practicing sound financial management thereby increasing the likelihood of success.

#### II. Understanding Financial Statements: A Health Checkup for Your Business

Financial Statements record the performance of your business and allow you

to diagnose its strengths and weaknesses by providing a written summary of financial activities. There are two' primary financial statements: the Balance Sheet and the Statement of Income.

### The Balance Sheet

The Balance Sheet provides a picture of the financial health of a business at a given moment, usually at the close of an accounting period. It lists in detail those material and intangible items the business owns (known as its assets) and what money the business owes, either to its creditors (liabilities) or to its owners (shareholders' equity or net worth of the business).

Assets include not only cash, merchandise inventory, land, buildings, equipment, machinery, furniture, patents, trademarks, and the like, but also money due from individuals or other businesses (known as accounts or notes receivable).

Liabilities are funds acquired for a business through loans or the sale of property or services to the business on credit. Creditors do not acquire business ownership, but promissory notes to be paid at a designated future date.

Shareholders' equity (or net worth or capital) is money put into a business by its owners for use by the business in acquiring assets.

At any given time, a business's assets equal the total contributions by the creditors and owners, as illustrated by the following formula for the Balance Sheet:

Assets	=	Liabilities	+	Net Worth
(Total funds invested in assets of the business)		(Funds supplied to the business by its creditors)		(Funds supplied to the business by its owners)

This formula is a basic premise of accounting. If a business owes more money to creditors than it possesses in value of assets owned, the net worth or owner's equity of the business will be a negative number.

The Balance Sheet is designed to show how the assets, liabilities, and net worth of a business are distributed at any given time. It is usually prepared at regular intervals; e.g., at each month's end but especially at the end of each fiscal (accounting) year.

By regularly preparing this summary of what the business owns and owes (the

Balance Sheet), the business owner/manager can identify and analyze trends in the financial strength of the business. It permits timely modifications, such as gradually decreasing the amount of money the business owes to creditors and increasing the amount the business owes its owners.

All Balance Sheets contain the same categories of assets, liabilities, and net worth. Assets are arranged in decreasing order of how quickly they can be turned into cash (liquidity). Liabilities are listed in order of how soon they must be repaid, followed by retained earnings (net worth or owner's equity), as illustrated in Figure 2-1, below, the sample Balance Sheet for ABC Company.

The categories and format of the Balance Sheet are established by a system known as Generally Accepted Accounting Principles (GAAP). The system is applied to all companies, large or small, so anyone reading the Balance Sheet can readily understand the story it tells.

Figure 2-1  
ABC Company  
December 31, 19-  
Balance Sheet

Cash	\$ 1,896	Notes Payable, Bank	\$ 2,000
Accounts Receivable	1,456	Accounts Payable	2,240
Inventory	6,822	Accruals	940
	ÄÄÄÄÄÄÄÄ		ÄÄÄÄÄÄÄÄ
Total Current Assets	\$10,174	Total Current Liabilities	\$ 5,180
Equipment and Fixtures	1,168	Total Liabilities	5,180
Prepaid Expenses	1,278	Net Worth	7,440
	ÄÄÄÄÄÄÄÄ		ÄÄÄÄÄÄÄÄ
Total Assets	\$12,620	Total Liabilities and New Worth	\$12,620

#### Balance Sheet Categories

**Assets:** An asset is anything the business owns that has monetary value.

\* Current Assets include cash, government securities, marketable securities, accounts receivable, notes receivable (other than from officers or employees), inventories, prepaid expenses, and any other item that could be converted into cash within one year in the normal course of business.

\* Fixed Assets are those acquired for long-term use in a business such as land, plant, equipment, machinery, leasehold improvements, furniture, fixtures, and any other items with an expected useful business life

measured in years (as opposed to items that will wear out or be used up in less than one year and are usually expensed when they are purchased). These assets are typically not for resale and are recorded in the Balance Sheet at their net cost less accumulated depreciation.

\* Other Assets include intangible assets, such as patents, royalty arrangements, copyrights, exclusive use contracts, and notes receivable from officers and employees.

**Liabilities:** Liabilities are the claims of creditors against the assets of the business (debts owed by the business).

\* Current Liabilities are accounts payable, notes payable to banks, accrued expenses (wages, salaries), taxes payable, the current portion (due within one year) of long-term debt, and other obligations to creditors due within one year.

\* Long-Term Liabilities are mortgages, intermediate and long-term bank loans, equipment loans, and any other obligation for money due to a creditor with a maturity longer than one year.

\* Net Worth is the assets of the business minus its liabilities. Net worth equals the owner's equity. This equity is the investment by the owner plus any profits or minus any losses that have accumulated in the business.

#### The Statement of Income

The second primary report included in a business's Financial Statement is the Statement of Income. The Statement of Income is a measurement of a company's sales and expenses over a specific period of time. It is also prepared at regular intervals (again, each month and fiscal year end) to show the results of operating during those accounting periods. It too follows Generally Accepted Accounting Principles (GAAP) and contains specific revenue and expense categories regardless of the nature of the business.

#### Statement of Income Categories

The Statement of Income categories are calculated as described below:

- \* Net Sales (gross sales less returns and allowances)
- \* Less Cost of Goods Sold (cost of inventories)
- \* Equals Gross Margin (gross profit on sales before operating expenses)
- \* Less Selling and Administrative Expenses (salaries, wages, payroll taxes and benefits, rent, utilities, maintenance expenses, office supplies, postage, automobile/vehicle expenses, insurance, legal and accounting expenses, depreciation)

- \* Equals Operating Profit (profit before other non-operating income or expense)
- \* Plus Other Income (income from discounts, investments, customer charge accounts)
- \* Less Other Expenses (interest expense)
- \* Equals Net Profit (Loss) Before Tax (the figure on which your tax is calculated)
- \* Less Income Taxes (if any are due)
- \* Equals Net Profit (Loss) After Tax

For an example of a Statement of Income, see Figure 2-2, the statement of ABC Company.

Figure 2-2  
ABC Company  
December 31, 19-  
Income Statement

Net Sales		\$68,116
Cost of Goods Sold		47,696
		ÄÄÄÄÄÄÄ
Gross Profit on Sales		\$20,420
Expenses		
Wages	\$6,948	
Delivery Expenses	954	
Bad Debts Allowances	409	
Communications	204	
Depreciation Allowance	409	
Insurance	613	
Taxes	1,021	
Advertising	1,566	
Interest	409	
Other Charges	749	
	ÄÄÄÄÄÄÄ	
Total Expenses		\$13,282
Net Profit		7,138
Other Income		886
		ÄÄÄÄÄÄÄ
Total Net Income		\$ 8,024

#### Calculating the Cost of Goods Sold

Calculation of the Cost of Goods Sold category in the Statement of Income (or Profit-and-Loss Statement as it is sometimes called) varies depending on whether the business is retail, wholesale, or manufacturing. In retailing and wholesaling, computing the cost of goods sold during the accounting period involves beginning and ending inventories. This, of course, includes purchases made during the accounting period. In manufacturing it involves not only finished-goods inventories, but also raw materials inventories goods-in-process inventories, direct labor, and direct factory overhead costs.



Regardless of the calculation for Cost of Goods Sold, deduct the Cost of Goods Sold from Net Sales to get Gross Margin or Gross Profit. From Gross Profit, deduct general or indirect overhead such as selling expenses, office expenses, and interest expenses, to calculate your Net Profit. This is the final profit after all costs and expenses for the accounting period have been deducted.

### III. Financial Ratio Analysis

The Balance Sheet and the Statement of Income are essential, but they are only the starting point for successful financial management. Apply Ratio Analysis to Financial Statements to analyze the success, failure, and progress of your business.

Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. To do this compare your ratios with the average of businesses similar to yours and compare your own ratios for several successive years, watching especially for any unfavorable trends that may be starting. Ratio analysis may provide the all-important early warning indications that allow you to solve your business problems before your business is destroyed by them.

#### Balance Sheet Ratio Analysis

Important Balance Sheet Ratios measure liquidity and solvency (a business's ability to pay its bills as they come due) and leverage (the extent to which the business is dependent on creditors' funding). They include the following ratios:

##### Liquidity Ratios.

These ratios indicate the ease of turning assets into cash. They include the Current Ratio, Quick Ratio, and Working Capital.

Current Ratios. The Current Ratio is one of the best known measures of financial strength. It is figured as shown below:

$$\text{Current Ratio} = \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

The main question this ratio addresses is: "Does your business have enough current assets to meet the payment schedule of its current debts with a margin of safety for possible losses in current assets, such as inventory shrinkage or collectable accounts?" A generally acceptable current ratio is 2 to 1. But whether or not a specific ratio is satisfactory depends on the nature of the business and the characteristics of its current assets and liabilities. The minimum acceptable current ratio is obviously 1:1, but



## Net Worth

Generally, the higher this ratio, the more risky a creditor will perceive its exposure in your business, making it correspondingly harder to obtain credit.

## Income Statement Ratio Analysis

The following important State of Income Ratios measure profitability:

### Gross Margin Ratio

This ratio is the percentage of sales dollars left after subtracting the cost of goods sold from net sales. It measures the percentage of sales dollars remaining (after obtaining or manufacturing the goods sold) available to pay the overhead expenses of the company.

Comparison of your business ratios to those of similar businesses will reveal the relative strengths or weaknesses in your business. The Gross Margin Ratio is calculated as follows:

$$\begin{aligned} \text{Gross Margin Ratio} &= \frac{\text{Gross Profit}}{\text{Net Sales}} \\ &= \frac{(\text{Gross Profit} = \text{Net Sales} - \text{Cost of Goods Sold})}{\text{Net Sales}} \end{aligned}$$

### Net Profit Margin Ratio

This ratio is the percentage of sales dollars left after subtracting the Cost of Goods sold and all expenses, except income taxes. It provides a good opportunity to compare your company's "return on sales" with the performance of other companies in your industry. It is calculated before income tax because tax rates and tax liabilities vary from company to company for a wide variety of reasons, making comparisons after taxes much more difficult. The Net Profit Margin Ratio is calculated as follows:

$$\begin{aligned} \text{Net Profit Margin Ratio} &= \frac{\text{Net Profit Before Tax}}{\text{Net Sales}} \end{aligned}$$

## Management Ratios

Other important ratios, often referred to as Management Ratios, are also derived from Balance Sheet and Statement of Income information.

### Inventory Turnover Ratio

This ratio reveals how well inventory is being managed. It is important because the more times inventory can be turned in a given operating cycle, the greater the profit. The Inventory Turnover Ratio is calculated as follows:

$$\begin{aligned} \text{Inventory Turnover Ratio} &= \frac{\text{Net Sales}}{\text{Average Inventory at Cost}} \end{aligned}$$

### Accounts Receivable Turnover Ratio

This ratio indicates how well accounts receivable are being collected. If receivables are not collected reasonably in accordance with their terms, management should rethink its collection policy. If receivables are excessively slow in being converted to cash, liquidity could be severely impaired. The Accounts Receivable Turnover Ratio is calculated as follows:

$$\frac{\text{Net Credit Sales/Year}}{365 \text{ Days/Year}} = \text{Daily Credit Sales}$$

$$\text{Accounts Receivable Turnover (in days)} = \frac{\text{Accounts Receivable}}{\text{Daily Credit Sales}}$$

#### Return on Assets Ratio

This measures how efficiently profits are being generated from the assets employed in the business when compared with the ratios of firms in a similar business. A low ratio in comparison with industry averages indicates an inefficient use of business assets. The Return on Assets Ratio is calculated as follows:

$$\frac{\text{Return on Assets} = \text{Net Profit Before Tax}}{\text{Total Assets}}$$

#### Return on Investment (ROI) Ratio.

The ROI is perhaps the most important ratio of all. It is the percentage of return on funds invested in the business by its owners. In short, this ratio tells the owner whether or not all the effort put into the business has been worthwhile. If the ROI is less than the rate of return on an alternative, risk-free investment such as a bank savings account or certificate of deposit, the owner may be wiser to sell the company, put the money in such a savings instrument, and avoid the daily struggles of small business management. The ROI is calculated as follows:

$$\text{Return on Investment} = \frac{\text{Net Profit before Tax}}{\text{Net Worth}}$$

These Liquidity, Leverage, Profitability, and Management Ratios allow the business owner to identify trends in a business and to compare its progress with the performance of others through data published by various sources. The owner may thus determine the business's relative strengths and weaknesses.

## Sources of Comparative Information

Sources of comparative financial information which you may obtain from your public library or the publishers include the following:

Almanac of Business and Industrial Financial Ratios, Leo Troy, Prentice-Hall, Inc., Englewood Cliffs, NJ 07632

Annual Statement Studies, Robert Morris Associates, P. O. Box 8500, S-1140, Philadelphia, PA 19178

Expenses in Retail Business, National Cash Register Corporation, Corporate Advertising and Sales Promotion Dayton, OH 45479.

Key Business Ratios, Dun & Bradstreet, Inc., 99 Church Street, New York, NY 10007, ATTN: Public Relations and Advertising Department

## IV. Forecasting Profits

Forecasting, particularly on a short-term basis (one year to three years), is essential to planning for business success. This process, estimating future business performance based on the actual results from prior periods, enables the business owner/manager to modify the operation of the business on a timely basis. This allows the business to avoid losses or major financial problems should some future results from operations not conform with reasonable expectations. Forecasts--or Pro Forma Income Statements and Cash Flow Statements as they are usually called--also provide the most persuasive management tools to apply for loans or attract investor money. As a business expands, there will inevitably be a need for more money than can be internally generated from profits.

## Facts Affecting Pro Forma Statements

Preparation of Forecasts (Pro Forma Statements) requires assembling a wide array of pertinent, verifiable facts affecting your business and its past performance. These include:

\* Data from prior financial statements, particularly:

- a. Previous sales levels and trends
- b. Past gross percentages
- c. Average past general, administrative, and selling expenses necessary to generate your former sales volumes
- d. Trends in the company's need to borrow (supplier, trade credit, and bank credit) to support various levels of inventory and trends in accounts receivable required to achieve previous sales volumes

- \* Unique company data, particularly:
  - a. Plant capacity
  - b. Competition
  - c. Financial constraints
  - d. Personnel availability
- \* Industry-wide factors, including:
  - a. Overall state of the economy
  - b. Economic status of your industry within the economy
  - c. Population growth
  - d. Elasticity of demand for the product or service your business provides
  - e. Availability of raw materials

Once these factors are identified, they may be used in Pro Formas, which estimate the level of sales, expense, and profitability that seem possible in a future period of operations.

#### The Pro Forma Income Statement

In preparing the Pro Forma Income Statement, the estimate of total sales during a selected period is the most critical "guesstimate." Employ business experience from past financial statements. Get help from management and salespeople in developing this all-important number.

Then assume, for example, that a 10 percent increase in sales volume is a realistic and attainable goal. Multiply last year's net sales by 1.10 to get this year's estimate of total net sales. Next, break down this total, month by month, by looking at the historical monthly sales volume. From this you can determine what percentage of total annual sales fell on the average in each of those months over a minimum of the past three years. You may find that 75 percent of total annual sales volume was realized during the six months from July through December in each of those years and that the remaining 25 percent of sales was spread fairly evenly over the first six months of the year.

Next, estimate the cost of goods sold by analyzing operating data to determine on a monthly basis what percentage of sales has gone into cost of goods sold in the past. This percentage can then be adjusted for expected variations in costs, price trends, and efficiency of operations.

Operating expenses (sales, general and administrative expenses, depreciation, and interest), other expenses, other income, and taxes can then be estimated through detailed analysis and adjustment of what they were in the past and what you expect them to be in the future.

#### Comparison with Actual Monthly Performance

Putting together this information month by month for a year into the future will result in your business's Pro Forma Statement of Income. Use it to

compare with the actual monthly results from operations by using the SBA form 1099 (4-82) Operating Plan Forecast (Profit and Loss Projection). Obtain this form from your local SBA office. You will find it helpful to refer to the SBA Guidelines for Profit and Loss Projection. Preparation of the information is summarized below and on the back of the form 1099.

#### Revenue (Sales)

- \* List the departments within the business. For example, if your business is appliance sales and service, the departments would include new appliances, used appliances, parts, in-shop service, on-site service.
- \* In the "Estimate" columns, enter a reasonable projection of monthly sales for each department of the business. Include cash and on-account sales. In the "Actual" columns, enter the actual sales for the month as they become available.
- \* Exclude from the Revenue section any revenue not strictly related to the business.

#### Cost of Sales

- \* Cite costs by department of the business, as above.
- \* In the "Estimate" columns, enter the cost of sales estimated for each month for each department. For product inventory, calculate the cost of the goods sold for each department (beginning inventory plus purchases and transportation costs during the month minus the inventory). Enter "Actual" costs each month as they accrue.

#### Gross Profit

- \* Subtract the total cost of sales from the total revenue.

#### Expenses

- \* Salary Expenses: Base pay plus overtime.
- \* Payroll Expenses: Include paid vacations, sick leave, health insurance, unemployment insurance, Social Security taxes.
- \* Outside Services: Include costs of subcontracts, overflow work farmed-out, special or one-time services.
- \* Supplies: Services and items purchased for use in the business, not for resale.
- \* Repairs and Maintenance: Regular maintenance and repair, including periodic large expenditures, such as painting or decorating.
- \* Advertising: Include desired sales volume, classified directory

listing  
expense, etc.

\* Car, Delivery and Travel: Include charges if personal car is used in the business. Include parking, tolls, mileage on buying trips, repairs, etc.

\* Accounting and Legal: Outside professional services.

\* Rent: List only real estate used in the business.

\* Telephone.

\* Utilities: Water, heat, light, etc.

\* Insurance: Fire or liability on property or products, worker's compensation.

\* Taxes: Inventory, sales, excise, real estate, others.

\* Interest.

\* Depreciation: Amortization of capital assets.

\* Other Expenses (specify each): Tools, leased equipment, etc.

\* Miscellaneous (unspecified): Small expenditures without separate accounts.

Net Profit

\* To find net profit, subtract total expenses from gross profit.

The Pro Forma Statement of Income, prepared on a monthly basis and culminating in an annual projection for the next business fiscal year, should be revised not less than quarterly. It must reflect the actual performance achieved in the immediately preceding three months to ensure its continuing usefulness as one of the two most valuable planning tools available to management.

Should the Pro Forma reveal that the business will likely not generate a profit from operations, plans must immediately be developed to identify what to do to at least break even--increase volume, decrease expenses, or put more owner capital in to pay some debts and reduce interest expenses.

Break-Even Analysis

"Break-Even" means a level of operations at which a business neither makes a profit nor sustains a loss. At this point, revenue is just enough to cover expenses. Break-Even Analysis enables you to study the relationship of volume, costs, and revenue.

Break-Even requires the business owner/manager to define a sales level--either in terms of revenue dollars to be earned or in units to be sold within a given accounting period--at which the business would earn a



before tax net profit of zero. This may be done by employing one of various formula calculations to the business estimated sales volume, estimated fixed costs, and estimated variable costs.

Generally, the volume and cost estimates assume the following conditions:

- \* A change in sales volume will not affect the selling price per unit;
- \* Fixed expenses (rent, salaries, administrative and office expenses, interest, and depreciation) will remain the same at all volume levels; and
- \* Variable expenses (cost of goods sold, variable labor costs including overtime wages and sales commissions) will increase or decrease in direct proportion to any increase or decrease in sales volume.

Two methods are generally employed in Break-Even Analysis, depending on whether the break-even point is calculated in terms of sales dollar volume or in number of units that must be sold.

#### Break-Even Point in Sales Dollars

The steps for calculating the first method are shown below:

1. Obtain a list of expenses incurred by the company during its past fiscal year.
2. Separate the expenses listed in Step 1 into either a variable or a fixed expense classification. (See Figure 4-1, below, under "Classification of Expenses.")
3. Express the variable expenses as a percentage of sales. In the condensed income statement (Figure 4-1) of the Small Business Specialties Co. (below), net sales were \$1,200,000. In Step 2, variable expenses were found to amount to \$720,000. Therefore, variable expenses are 60 percent of net sales (\$720,000 divided by \$1,200,000). This means that 60 cents of every sales dollar is required to cover variable expenses. Only the remainder, 40 cents of every dollar, is available for fixed expenses and profit.
4. Substitute the information gathered in the preceding steps in the following basic break-even formula to calculate the breakeven point.

Figure 4-1

AA  
AAAAAAAAAAAA

THE SMALL-BUSINESS SPECIALTIES CO.  
Condensed Income Statement  
For year ending Dec. 31, 19-

Net sales (60,000 units @ \$20 per unit).....

Schedule C		Schedule A	Schedule B	general
and		manufacturing	selling	
administrative	Total	expenses	expenses	
expenses				
Rent.....\$ 60,000		\$ 30,000	\$ 8,000	\$
22,000				
Insurance..... 11,000		9,000	1,000	
1,000				
Commissions..... 120,000		.....	120,000	
.....				
Property tax..... 12,000		10,000	1,000	
1,000				
Telephone..... 7,000		1,000	5,000	
1,000				
Depreciation..... 80,000		70,000	5,000	
5,000				
Power..... 100,000		100,000	.....	
.....				
Light..... 60,000		30,000	10,000	
20,000				
Officers' salaries... 260,000		50,000	50,000	
160,000				
ÄÄÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄÄÄ	
ÄÄÄÄÄÄÄÄÄÄ				
Total.....\$710,000		\$300,000	\$200,000	
\$210,000				

```

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íííííííííí
AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA
AAAAAAAAAAAA

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# Classification of Expenses

	Total	Variable
Fixed		
Direct material.....\$	195,000	195,000
.....		
Direct labor.....	215,000	215,000
.....		
Manufacturing expenses.....	300,000	100,000
\$200,000		
Selling expenses.....	200,000	
50,000		
General and admin. expenses.....	210,000	60,000
150,000		
	AAAAAAA	AAAAAAA
AAAAAAA		
Total.....\$1,120,000		\$720,000
\$400,000		

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AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA
AAAAAAAAAAAA

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where:  $S = F + V$  (Sales at the break-even point)  
 $F$  = Fixed expenses  
 $V$  = Variable expenses expressed as a percentage of sales.

This formula means that when sales revenues equal the fixed expenses and variable expenses incurred in producing the sales revenues, there will be no profit or loss. At this point, revenue from sales is just sufficient to cover the fixed and the variable expenses. In this formula "S" is the break even point.

For the Small Business Specialties Co., the break-even point (using the basic formula and data from Figure 4-2) may be calculated as follows:

$$\begin{aligned}
 S &= F + V \\
 S &= \$400,000 + 0.60S \\
 10S &= \$4,000,000 + 6S \\
 10S - 6S &= \$4,000,000 \\
 4S &= \$4,000,000 \\
 S &= \$1,000,000
 \end{aligned}$$

Proof that this calculation is correct follows:

Sales at break-even point per calculation	\$1,000,000
Less variable expenses (60 percent of sales)	600,000
	AAAAAAA
Marginal income	400,000
Less fixed expenses	400,000
	AAAAAAA
Equals neither profit nor loss	\$ 0

Modification: Break-Even Point to Obtain Desired Net Income.

The first break-even formula can be modified to show the dollar sales required to obtain a certain amount of desired net income. To do this, let

"S" mean the sales required to obtain a certain amount of net income, say \$80,000. The formula then reads:

$$\begin{aligned} S &= F + V + \text{Desired Net Income} \\ S &= \$400,000 + 0.60S + \$80,000 \\ 10S &= \$4,000,000 + 6S + 800,000 \\ 4S &= \$4,800,000 \\ S &= \$1,200,000 \end{aligned}$$

Break-Even Point in Units to be Sold

You may want to calculate the break-even point in terms of units to be sold

instead of sales dollars. If so, a second formula (in which "S" means units

to be sold to break even) may be used:

$$\begin{aligned} \text{Break-even Sales} &= \frac{\text{Fixed expenses}}{\text{Unit sales price} - \text{Unit variable expenses}} \\ (S = \text{Units}) & \quad \text{AA} \\ S &= \frac{\$400,000}{\$20 - \$12} = \frac{\$400,000}{\$8} \\ & \quad \text{AAAAAAAA} \quad \text{AAAAAAAA} \\ S &= 50,000 \text{ units} \end{aligned}$$

The Small Business Specialties Co. must sell 50,000 units at \$20 per unit to break even under the assumptions contained in this illustration. The sale of 50,000 units at \$20 each equals \$1 million, the break-even sales volume in dollars calculated in the basic formula. This formula indicates there is \$8 per unit of sales that can be used to cover the \$400,000 fixed expense. Then \$400,000 divided by \$8 gives the number of units required to break even.

Modification: Break-Even Point in Units to be Sold to Obtain Desired Net Income.

The second formula can be modified to show the number of units required to

obtain a certain amount of net income. In this case, let S mean the number

of units required to obtain a certain amount of net income, again say \$80,000. The formula then reads as follows:

$$\begin{aligned} S &= \frac{\text{Fixed expenses} + \text{Net income}}{\text{Unit sales price} - \text{Unit variable expense}} \\ & \quad \text{AA} \\ S &= \frac{\$400,000 + \$80,000}{\text{AAAAAAAAAAAAAAAA}} = \frac{\$480,000}{\text{AAAAAAAA}} \end{aligned}$$

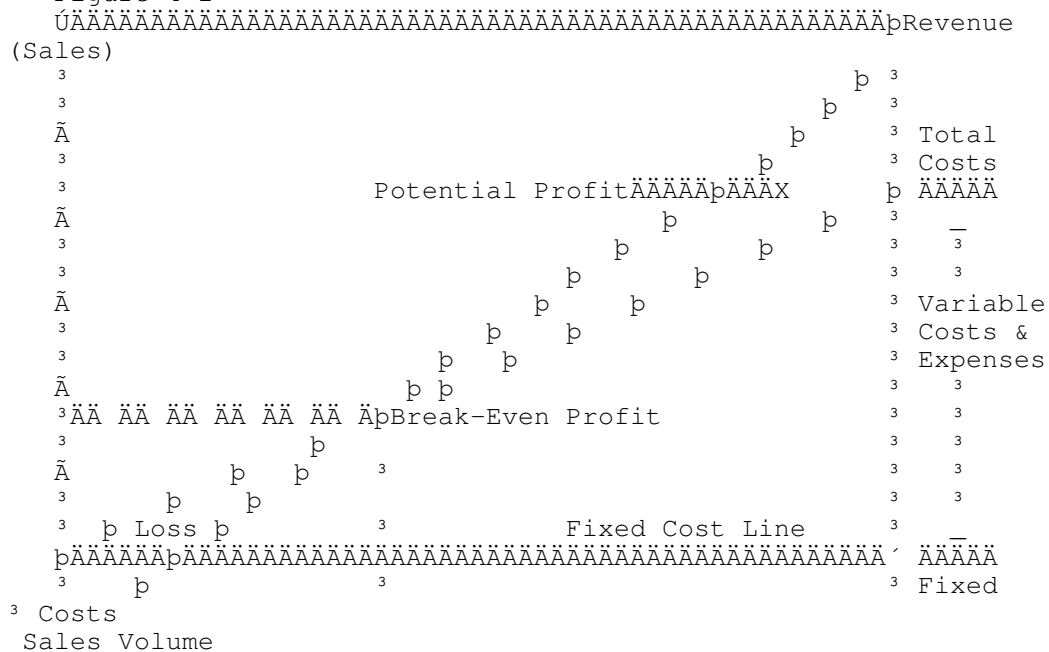
$$\$20 - \$12 = \$8$$

$$S = 60,000 \text{ units}$$

Break-even Analysis may also be represented graphically by charting the sales dollars or sales units required to break even as in Figure 4-2, below.

Remember: Increased sales do not necessarily mean increased profits. If you know your company's break-even point, you will know how to price your product to make a profit. If you cannot make an acceptable profit, alter or sell your business before you lose your retained earnings.

Figure 4-2



## V. Cash Flow Management: Budgeting and Controlling Costs

If there is anything more important to the successful financial management of a business than the thorough, thoughtful preparation of Pro Forma Income Statements, it is the preparation of the Cash Flow Statement, sometimes called the Cash Flow Budget.

### The Cash Flow Statement

The Cash Flow Statement identifies when cash is expected to be received and when it must be spent to pay bills and debts. It shows how much cash will be needed to pay expenses and when it will be needed. It also allows the manager to identify where the necessary cash will come from. For example, will it be internally generated from sales and the collection of accounts

receivable--or must it be borrowed? (The Cash Flow Projection deals only with actual cash transactions; depreciation and amortization of good will or other non-cash expense items are not considered in this Pro Forma.)

The Cash Flow Statement, based on management estimates of sales and obligations, identifies when money will be flowing into and out of the business. It enables management to plan for shortfalls in cash resources so short term working capital loans may be arranged in advance. It allows management to schedule purchases and payments in a way that enables the business to borrow as little as possible. Because all sales are not cash sales management must be able to forecast when accounts receivable will become "cash in the bank" and when expenses--whether regular or seasonal--must be paid so cash shortfalls will not interrupt normal business operations.

The Cash Flow Statement may also be used as a Budget, permitting the manager increased control of the business through continuous comparison of actual receipts and disbursements against forecast amounts. This comparison helps the small business owner identify areas for timely improvement in financial management.

By closely watching the timing of cash receipts and disbursements, cash balance on hand, and loan balances, management can readily identify such things as deficiencies in collecting receivables, unrealistic trade credit or loan repayment schedules. Surplus cash that may be invested on a short-term basis or used to reduce debt and interest expenses temporarily can be recognized. In short, it is the most valuable tool management has at its disposal to refine the day-to-day operation of a business. It is an important financial tool bank lenders evaluate when a business needs a loan, for it demonstrates not only how large a loan is required but also when and how it can be repaid.

A Cash Flow Statement or Budget can be prepared for any period of time. However, a one-year budget matching the fiscal year of your business is recommended. As in the preparation and use of the Pro Forma Statement of Income, the projected Cash Flow Statement should be prepared on a monthly basis for the next year. It should be revised not less than quarterly to reflect actual performance in the preceding three months of operations to check its projections.

In preparing the Cash Flow Statement or Budget start with the sales budget. Other budgets are related directly or indirectly to this budget. The following is a sales forecast in units:

Sales Budget--Units For the Year Ended December 31, 19\_\_

Territory	Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
East.....	26,000	5,000	6,000	7,000	8,000
West.....	11,000	2,000	2,500	3,000	3,500
	ÄÄÄÄÄÄ	ÄÄÄÄÄ	ÄÄÄÄÄ	ÄÄÄÄÄÄ	ÄÄÄÄÄÄ

37,000	7,000	8,500	10,000	11,500
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Assume you sell a single product and the sales price for it is \$10. Your sales budget in terms of dollars would look like this:

Sales Budget--Dollars For the Year Ended December 31, 19\_\_

Territory	Total	1st	2nd	3rd	4th
		Quarter	Quarter	Quarter	Quarter
East.....	\$260,000	\$50,000	\$80,000	\$ 70,000	\$ 80,000
West.....	110,000	20,000	25,000	30,000	35,000
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ
	\$370,000	\$70,000	\$85,000	\$100,000	\$115,000
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Say the estimated per unit cost of the product is \$1.50 for direct material, \$2.50 for direct labor, and \$1.00 for manufacturing overhead. By applying unit costs to the sales budget in units, you would come out with this budget:

Cost of Goods Sold Budget For the Year Ended December 31, 19\_\_

	Total	1st	2nd	3rd	4th
		Quarter	Quarter	Quarter	Quarter
Direct material.....	\$ 55,500	\$10,500	\$12,750	\$15,000	\$17,250
Direct labor.....	92,500	17,500	21,250	25,000	28,750
Mfg. overhead.....	37,000	7,000	8,500	10,000	11,500
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ
	\$185,000	\$35,000	\$42,500	\$50,000	\$57,500
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Later on, before a cash budget can be compiled, you will need to know the estimated cash requirements for selling expenses. Therefore, you prepare a budget for selling expenses and another for cash expenditures for selling expenses (total selling expenses less depreciation):

Selling Expenses Budget For the Year Ended December 31 19\_\_

	Total	1st	2nd	3rd	4th
		Quarter	Quarter	Quarter	Quarter
Commissions.....	\$46,500	\$ 8,750	\$10,625	\$12,500	\$14,375
Rent.....	9,250	1,750	2,125	2,500	2,875
Advertising.....	9,250	1,750	2,125	2,500	2,875
Telephone.....	4,625	875	1,062	1,250	

1,437				
Depreciation--office....	900	225	225	225
225				
Other.....	22,250	4,150	5,088	6,025
6,983				
	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
ÄÄÄÄÄÄÄ				
	\$92,500	\$17,500	\$21,250	\$25,000
\$28,750				
	ííííííí	ííííííí	ííííííí	ííííííí
ííííííí				

Selling Expenses Budget--Cash Requirements For the Year Ended  
December 31, 19\_\_

	Total	1st	2nd	3rd
4th				
		Quarter	Quarter	Quarter
Quarter				
Total selling expenses..	\$92,500	\$17,500	\$21,250	\$25,000
\$28,750				
Less: depreciation.....				
expense--office.....	900	225	225	225
225				
	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
ÄÄÄÄÄÄÄ				
Cash requirements.....	\$91,600	\$17,275	\$21,025	\$24,775
\$28,525				
	ííííííí	ííííííí	ííííííí	ííííííí
ííííííí				

Basic information for an estimate of administrative expenses for the coming year is easily compiled. Again, from that budget you can estimate cash requirements for those expenses to be used subsequently in preparing the cash budget.

Administrative Expenses Budget For the Year Ended December 31, 19\_\_

	Total	1st	2nd	3rd	4th
		Quarter	Quarter	Quarter	Quarter
Salaries.....	\$22,200	\$4,200	\$5,100	\$ 6,000	\$ 6,900
Insurance.....	1,850	350	425	500	575
Telephone.....	1,850	350	425	500	575
Supplies.....	3,700	700	850	1,000	1,150
Bad debt expenses.....	3,700	700	850	1,000	1,150
Other expenses.....	3,700	700	850	1,000	1,150
	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
	\$37,000	\$7,000	\$8,500	\$10,000	\$11,500
	ííííííí	ííííííí	ííííííí	ííííííí	ííííííí

Administrative Expenses Budget--Cash Requirements  
For the Year Ended December 31, 19\_\_

	Total	1st	2nd	3rd	4th
		Quarter	Quarter	Quarter	
Quarter					
Estimated adm. expenses...	\$37,000	\$7,000	\$8,500	\$10,000	
\$11,500					
Less: bad debt expenses...	3,700	700	850	1,000	
1,150					



	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA				
Cash requirements.....\$33,300	\$6,500	\$7,650	\$ 9,000	
\$10,350	iiiiii	iiiiii	iiiiii	iiiiii
iiiiii				

Now, from the information budgeted so far, you can proceed to prepare the budget income statement. Assume you plan to borrow \$10,000 at the end of the first quarter. Although payable at maturity of the note, the interest appears in the last three quarters of the year. The statement will resemble the following:

Budgeted Income Statement For the Year Ended December 31, 19\_\_

	Total	1st	2nd	3rd	
4th		Quarter	Quarter	Quarter	
Quarter					
Sales.....\$370,000	\$70,000	\$85,000	\$100,000		
\$115,000					
Cost of goods sold..... 185,000	35,000	42,500	50,000		
57,500	AAAAAA	AAAAAA	AAAAAA	AAAAAA	
AAAAAA					
Gross Margin.....\$185,000	\$35,000	\$42,500	\$ 50,000	\$	
57,500	AAAAAA	AAAAAA	AAAAAA	AAAAAA	
AAAAAA					
Operating expenses:					
Selling.....\$ 92,500	\$17,500	\$21,250	\$ 25,000	\$	
28,750					
Administrative..... 37,000	7,000	8,500	\$ 10,000	\$	
11,500	AAAAAA	AAAAAA	AAAAAA	AAAAAA	
AAAAAA					
Total.....\$129,500	\$24,500	\$29,750	\$ 35,000	\$	
40,250	AAAAAA	AAAAAA	AAAAAA	AAAAAA	
AAAAAA					
Net income					
from operations.....\$ 55,500	\$10,500	\$12,750	\$ 15,000	\$	
17,250					
Interest expense..... 450		150	150		
150	AAAAAA	AAAAAA	AAAAAA	AAAAAA	
AAAAAA					
Net income before					
Income taxes.....\$ 55,050	\$10,500	\$12,600	\$ 14,850	\$	
17,100					
Federal income tax..... 27,525	5,250	6,300	7,425		
8,550	AAAAAA	AAAAAA	AAAAAA	AAAAAA	
AAAAAA					
Net income.....\$ 27,525	\$ 5,250	\$ 6,300	\$ 7,425	\$	
8,550	AAAAAA	AAAAAA	AAAAAA	AAAAAA	
AAAAAA					

Estimating that 90 percent of your account sales is collected in the quarter in which they are made, that 9 percent is collected in the quarter following the quarter in which the sales were made, and that 1 percent of account sales is uncollectible, your accounts receivable budget of collections would look like this:

Budget of Collections of Accounts Receivable For the Year Ended December 31, 19\_\_

	Total (net)	1st Quarter	2nd Quarter	3rd Quarter	4th
Quarter					
4th Quarter Sales 19-0...	\$ 6,000	\$ 6,000			
1st Quarter Sales 19-1...	69,300	63,000	\$ 6,300		
2nd Quarter Sales 19-1...	84,150		76,500	\$ 7,650	
3rd Quarter Sales 19-1...	99,000			90,000	\$
9,000					
4th Quarter Sales 19-1...	103,500				
103,500					
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	
ÄÄÄÄÄÄÄÄ					
	\$361,950	\$69,000	\$82,800	\$97,650	
\$112,500					

Going back to the sales budget in units, now prepare a production budget in units. Assume you have 2,000 units in the opening inventory and want to have on hand at the end of each quarter the following quantities: 1st quarter, 3,000 units; 2nd quarter, 3,500 units; 3rd quarter, 4,000 units; and 4th quarter, 4,500 units.

Production Budget--Units For the Year Ended December 31, 19\_\_

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales requirements.....	7,000	8,500	10,000	11,500
Add: ending inventory requirements.....	3,000	3,500	4,000	4,500
	ÄÄÄÄÄÄ	ÄÄÄÄÄÄ	ÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ
Total requirements.....	10,000	12,500	14,000	16,000
Less: beginning inventory.....	2,000	3,000	3,500	4,000
	ÄÄÄÄÄÄ	ÄÄÄÄÄÄ	ÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ
Production requirements.....	8,000	9,000	10,500	112,000
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Next, based on the production budget, prepare a budget to show the purchases needed during each of the four quarters. Expressed in terms of dollars, you do this by taking the production and inventory fires and multiplying them by the cost of material (previously estimated at \$1.50 per unit). You could prepare a similar budget expressed in units.

Budget of Direct Materials Purchases For the Year Ended December 31, 19\_\_

1st 2nd 3rd 4th

	Quarter	Quarter	Quarter	Quarter
Required for production.....	\$12,000	\$13,500	\$15,750	\$18,000
Required for ending inventory..	4,500	52,250	6,000	6,750
	AAAAAA	AAAAAA	AAAAAA	AAAAAA
Total.....	\$16,500	\$18,750	\$21,750	\$24,750
Less: beginning inventory.....	3,000	4,500	5,250	6,000
	AAAAAA	AAAAAA	AAAAAA	AAAAAA
Required purchases.....	\$13,500	\$14,250	\$16,500	\$18,750
	IIIIII	IIIIII	IIIIII	IIIIII

Now suppose you pay 50 percent of your accounts in the quarter of the purchase and 50 percent in the following quarter. Carryover payables from last year were \$5,000. Further, you always take the purchase discounts as a matter of good business policy. Since net purchases (less discount) were figured into the \$1.50 cost estimate, purchase discounts do not appear in the budgets. Thus your payment on purchases budget will come out like this:

Payment on Purchases Budget For the Year Ended December 31, 19\_\_

	Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
4th Quarter Sales 19-0...	\$ 5,000	\$ 5,000			
1st Quarter Sales 19-1...	13,500	6,750	\$ 6,750		
2nd Quarter Sales 19-1...	14,250			7,125	\$ 7.125
3rd Quarter Sales 19-1...	16,500			8,250	\$ 8,250
4th Quarter Sales 19-1...	9,375				9,375
	AAAAAA				AAAAAA
Payments by Quarters	\$58,625	\$11,750	\$13,875	\$15,375	\$17,625
	IIIIII	IIIIII	IIIIII	IIIIII	IIIIII

Taking the data for quantities produced from the production budget in units, calculate the direct labor requirements on the basis of units to be produced. (The number and cost of labor hours necessary to produce a given quantity can be set forth in supplemental schedules.)

Direct Labor Budget--Cash Requirements For the Year Ended December 31, 19\_\_

	Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Quantity.....	39,500	8,000	9,000	10,500	12,000
Direct labor cost.....	\$98,750	\$20,000	\$22,500	\$26,250	\$30,000

Now outline the items that comprise your factory overhead, and prepare a budget like the following:

Manufacturing Overhead Budget For the Year Ended December 31, 19\_\_

	Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Heat and power.....	\$10,000	\$1,000	\$2,500	\$ 3,000	\$ 3,500
Factory supplies.....	5,300	1,000	1,500	1,800	1,000
Property taxes.....	2,000	500	500	500	500
Depreciation.....	2,800	700	700	700	700
Rent.....	8,000	2,000	2,000	2,000	2,000

Superintendent.....	9,400	2,800	1,800	2,500	4,300
	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄ	ÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
	\$39,500	\$8,000	\$9,000	\$10,500	\$12,000
	ííííííí	íííííí	íííííí	ííííííí	ííííííí

Figure the cash payments for manufacturing overhead by subtracting depreciation, which requires no cash outlay, from the totals above, and you will have the following breakdown:

Manufacturing Overhead Budget--Cash Requirements  
For the Year Ended December 31, 19\_\_\_\_

	Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Productions--units.....	39,500	8,000	9,000	10,500	12,000
	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄ	ÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
Mfg.overhead expenses...	\$39,500	\$8,000	\$9,000	\$10,500	\$12,000
Less: depreciation.....	2,800	700	700	700	700
	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄ	ÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ
Cash requirements.....	\$36,700	\$7,300	\$8,300	\$ 9,800	\$11,300
	ííííííí	íííííí	íííííí	ííííííí	ííííííí

Now comes the all important cash budget. You put it together by using the Collection of Accounts Receivable Budget; Selling Expenses Budget--Cash Requirements; Administrative Expenses Budget--Cash Requirements; Payment of Purchases Budget; Direct Labor Budget--Cash Requirements; and Manufacturing Budget--Cash Requirements.

Take \$15,000 as the beginning balance, and assume that dividends of \$20,000 are to be paid in the fourth quarter.

Cash Budget For the Year Ended December 31, 19\_\_\_\_

	Total	1st Quarter	2nd Quarter	3rd Quarter	4th
Quarter					
Beginning cash balance	\$ 15,000	\$15,000	\$ 3,850	\$ 13,300	\$
25,750					
Cash collections	361,950	69,000	82,800	97,650	
112,500					
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	
ÄÄÄÄÄÄÄÄ					
Total	\$376,950	\$84,000	\$86,650	\$110,950	
\$138,250					
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	
ÄÄÄÄÄÄÄÄ					
Cash payments					
Purchases	\$ 58,625	\$11,750	\$13,875	\$ 15,375	\$
17,625					
Direct labor	98,750	20,000	22,500	26,250	
30,000					
Mfg. overhead	38,700	7,300	8,300	9,800	
11,300					
Selling expense	91,600	17,275	21,025	24,775	
28,525					
Adm. expenses	33,300	6,300	7,650	9,000	

10,350					
Federal income tax	27,525	27,525			
Dividends	20,000				
20,000					
Interest expenses	450				
450					
Loan repayment	10,000				
10,000					
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	
ÄÄÄÄÄÄÄÄ					
Total	\$376,950	\$90,150	\$73,350	\$ 85,200	
\$128,250					
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ	
ÄÄÄÄÄÄÄÄ					
Cash deficiency		(\$ 6,150)			
Bad loan received	10,000	10,000			
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ			
Ending cash balance	\$ 10,000	\$ 3,850	\$13,300	\$ 25,750	\$
10,000					
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ÍÍÍÍÍÍÍÍ					

Now you are ready to prepare a budget balance sheet. Take the account balances of last year and combine them with the transactions reflected in the various budgets you have compiled. You will come out with a sheet resembling this:

#### Budgeted Balance Sheet December 31, 19\_\_

##### Assets

	19__	19__
Current assets:		
Cash	\$ 10,000	\$ 15,000
Accounts receivable	11,500	6,666
Less: allowance for doubtful accounts	(1,150)	(666)
Inventory:		
Raw materials	6,750	3,000
Finished goods	22,500	10,000
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ
Total current assets	\$ 49,600	34,000
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ
Fixed assets:		
Land	\$ 50,000	\$ 50,000
Building	148,000	148,000
Less: allowance for depreciation	(37,000)	(33,000)
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ
Total fixed assets	\$161,100	\$164,700
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ
Total assets	\$210,600	\$198,700
	ÍÍÍÍÍÍÍÍ	ÍÍÍÍÍÍÍÍ

##### Liabilities and Shareholders' Equity

##### Current liabilities:

Account payable	\$ 9,375	\$ 5,000
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ

##### Shareholders' equity:

Capital stock (10,000 shares; \$10 par value)	\$100,000	\$110,000
Retained earnings	101,225	93,700
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ
	\$201,225	\$193,700
	ÄÄÄÄÄÄÄÄ	ÄÄÄÄÄÄÄÄ

Total liabilities and shareholders' equity	\$210,600	\$198,700
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In order to make the most effective use of your budgets to plan profits, you will want to establish reporting devices. Throughout the time span you have set, you need periodic reports and reviews on both efforts and accomplishments. These let you know whether your budget plan is being attained and help you keep control throughout the process. It is through comparing actual performance with budgeted projections that you maintain control of the operations.

Your company should be structured along functional lines, with well identified areas of responsibility and authority. Then, depending upon the size of your company, the budget reports can be prepared to correspond with the organizational structure of the company.

Two typical budget reports are shown below to demonstrate various forms these reports may take.

#### Report of Actual and Budgeted Sales For the Year Ended December 31, 19

	Actual sales	Budgeted sales	Variations from budget (under)	
			Quarterly	
Cumulative				
1st Quarter	\$	\$	\$	\$
2nd Quarter				
3rd Quarter				
4th Quarter				

#### Budgeted Report on Selling Expenses For the Year Ended December 31, 19

Remarks						
Budget	Actual	Variation	Budget	Actual	Variations	
This Month	This Month	This Month	Year to Date	Year to Date	Year to Date	
3	3	3	3	3	3	
3	3	3	3	3	3	
3	3	3	3	3	3	
3	3	3	3	3	3	
3	3	3	3	3	3	
3	3	3	3	3	3	

Remember, the Cash Flow Statement used as the business's Budget allows the owner/manager to anticipate problems rather than react to them after they occur. It permits comparison of actual receipts and disbursements against projections to identify errors in the forecast. If cash flow is analyzed monthly, the manager can correct the cause of the error before it harms profitability.

## VI. Pricing Policy

Identifying the actual cost of doing business requires careful and accurate analysis. No one is expected to calculate the cost of doing business with complete accuracy. However, failure to calculate all actual costs properly to ensure an adequate profit margin is a frequent and often overlooked cause of business failure.

### Establishing Selling Prices

The costs of raw materials, labor, indirect overhead, and research and development must be carefully studied before setting the selling price of items offered by your business. These factors must be regularly re-evaluated, as costs fluctuate.

Regardless of the strategies employed to maximize profitability, the method of costing products offered for resale is basic. It involves four major categories:

- \* Direct Material Costs
- \* Direct Labor Costs
- \* Overhead Expenses
- \* Profit Desired

Combining these factors allows you to calculate an item's minimum sales price, which is described below:

1. Calculate your Direct Material Costs. Direct material costs are the total cost of all raw materials used to produce the item for sale. Divide this total cost by the number of items produced from these raw materials to derive the Total Direct Materials Cost Per Item.

2. Calculate your Direct Labor Costs. Direct labor costs are the wages paid to employees to produce the item. Divide this total direct labor cost by the total number of items produced to get the Total Direct Labor Cost Per Item.

3. Calculate your Total Overhead Expenses. Overhead expenses include rent, gas and electricity, telephone, packing and shipping, delivery and freight charges, cleaning expenses, insurance, office supplies, postage, repairs and maintenance, and the manager's salary. In other words, all operating expenses incurred during the same time period that you used for calculating the costs above (one year, one quarter, or one month). Divide the Total Overhead Expense by the number of items produced for sale during that same time period to get the Total Overhead Expense Per Item.

4. Calculate Total Cost Per Item. Add the Total Direct Material Cost Per Item, the Total Direct Labor Cost Per Item, and the Total Overhead

Per Item to derive the Total Cost Per Item.

and profit strategy you have set for your business.

## A Pricing Example

### 1. Calculate Direct Materials Cost

week

Cost per skirt	15 skirts per week
10	10
15	15
20	20
25	25
30	30
35	35
40	40
45	45
50	50
55	55
60	60
65	65
70	70
75	75
80	80
85	85
90	90
95	95
100	100

Wages paid to employees = \$100.00 per week

per skirt  
15 skirts

Overhead Expenses	Monthly Expenses
Owner's Salary	\$400.00
Rent	100.00



To demonstrate, assume a manager determines from past records that the business's operating expenses average 29 percent of sales. She decides that

she is entitled to a profit of 3 percent. So she prices her goods at a 32

percent gross margin, in order to earn a 3 percent profit after all operating expenses are paid. What she fails to realize, however, is that once the goods are displayed, some may be lost through pilferage. Others may have to be marked down later in order to sell them, or employees may purchase some of them at a discount. Therefore, the total reductions (mark-downs, shortages, discounts) in the sales price realized from selling all the inventory actually add up to an annual average of six percent of total sales. To correctly calculate the necessary mark-up required to yield

a 32 percent gross margin, these reductions to inventory must be anticipated and added into its selling price. Using the formula:

$$\begin{aligned} \text{Initial Mark-up} &= \frac{\text{Desired Gross Margin} + \text{Retail Reductions}}{100 \text{ Percent} + \text{Retail Reductions}} \\ \frac{32 \text{ percent} + 6 \text{ percent}}{100 \text{ percent} + 6 \text{ percent}} &= \frac{38 \text{ percent}}{106 \text{ percent}} = 35.85 \text{ percent} \end{aligned}$$

To obtain the desired gross margin of 32 percent, therefore, the retailer must initially mark up his inventory by nearly 36 percent.

#### Pricing Policies and Profitability Goals

Break-Even Analysis, discussed in Chapter IV, and Return on Investment, described in Chapter III, should be reviewed at this time. Remember, all costs (direct and indirect), the break-even point, desired profit, and the methods of calculating sales price from these factors must be thoroughly studied when you establish pricing policies and profitability goals. They should be understood before you offer items for sale because an omission or error in these calculations could make the difference between success and failure.

#### Selling Strategy

Proper product pricing is only one facet of overall planning for profitability. A second major factor to be determined once costs, break-even point, and profitability goals have been analyzed, is the selling strategy. Three sales planning approaches are used (often concurrently) by businesses to develop final pricing policies, as they strive to compete successfully.

In the first, employed as a short-term strategy in the earliest stages of a business, the owner/manager sells products at such low prices that the business only breaks even (no profit), while trying to attract future steady customers. As volume grows, the owner/manager gradually builds in the profit margin necessary to achieve the targeted Return on Investment.

"Loss leaders" are a second strategy practiced in both developing and mature business. While a few items are sold at a loss, most goods are

priced for healthy profits. The hope is that while customers are in the store to purchase the low-price items, they will also buy enough other goods to make the seller's overall profitability higher than if he had not used "come-ons." The seller wants to maximize total profit and can sacrifice profit on a few items to achieve that goal.

The third strategy recognizes that maximum profit does not result only from selling goods at relatively high profit margins. The relationship of volume, price, cost of merchandise, and operational expenses determines profitability. Price increases may result in fewer sales and decreased profits. Reductions in prices, if sales volume is substantially increased, may produce satisfactory profits.

There is no arbitrary rule about this. It is perfectly possible for two stores, with different pricing structures to exist side by side and both be successful. It is the owner/manager's responsibility to identify and understand the market factors that affect his or her unique business circumstances. The level of service (delivery, availability of credit, store hours, product advice, and the like) may permit a business to charge higher prices in order to cover the costs of such services. Location, too, often permits a business to charge more, since customers are often willing to pay a premium for convenience.

The point is that many considerations go into setting selling prices. Some small businesses do not seek to compete on price at all, finding an un- or under-occupied market niche, which can be a more certain path to success. What is important is that all factors that affect pricing must be recognized and analyzed for their costs as well as their benefits.

## VII. Forecasting and Obtaining Capital

Forecasting the need for capital, whether debt or equity, has already been discussed in Chapter V. This chapter looks at the types and uses of external capital and the usual sources of such capital.

### Types and Sources of Capital

The capital to finance a business has two major forms: debt and equity. Creditor money (debt) comes from trade credit, loans made by financial institutions, leasing companies, and customers who have made prepayments on larger--frequently manufactured--orders. Equity is money received by the company in exchange for some portion of ownership. Sources include the entrepreneur's own money; money from family, friends, or other non-professional investors; or money from venture capitalists, Small Business Investment Companies (SBICs), and Minority Enterprise Small Business Investment Companies (MESBICs) both funded by the SBA.

Debt capital, depending upon its sources (e.g., trade, bank, leasing company, mortgage company) comes into the business for short or

intermediate periods. Owner or equity capital remains in the company for the life of the business (unless replaced by other equity) and is repaid only when and if there is a surplus at liquidation of the business--after all creditors are repaid.

Acquiring such funds depends entirely on the business's ability to repay with interest (debt) or appreciation (equity). Financial performance (reflected in the Financial Statements discussed in Chapter II) and realistic, thorough management planning and control (shown by Pro Forms and Cash Flow Budgets), are the determining factors in whether or not a business can attract the debt and equity funding it needs to operate and expand.

Business capital can be further classified as equity capital, working capital, and growth capital. Equity capital is the cornerstone of the financial structure of any company. As you will recall from Chapter II, equity is technically the part of the Balance Sheet reflecting the ownership of the company. It represents the total value of the business, all other financing being debt that must be repaid. Usually, you cannot get equity capital--at least not during the early stages of business growth.

Working capital is required to meet the continuing operational needs of the business, such as "carrying" accounts receivable purchasing inventory, and meeting the payroll. In most businesses, these needs vary during the year, depending on activities (inventory build-up, seasonal hiring or layoffs, etc.) during the business cycle.

Growth capital is not directly related to cyclical aspects of the business. Growth capital is required when the business is expanding or being altered in some significant and costly way that is expected to result in higher and increased cash flow. Lenders of growth capital frequently depend on anticipated increased profit for repayment over an extended period of time, rather than expecting to be repaid from seasonal increases in liquidity as is the case of working capital lenders.

Every growing business needs all three types: equity, working, and growth capital. You should not expect a single financing program maintained for a short period of time to eliminate future needs for additional capital.

As lenders and investors analyze the requirements of your business, they will distinguish between the three types of capital in the following way:

1) fluctuating needs (working capital); 2) needs to be repaid with profits over a period of a few years (growth capital); and 3) permanent needs (equity capital).

If you are asking for a working capital loan, you will be expected to show

how the loan can be repaid through cash (liquidity) during the business's next full operating cycle, generally a one year cycle. If you seek growth capital, you will be expected to show how the capital will be used to increase your business enough to be able to repay the loan within several years (usually not more than seven). If you seek equity capital, it must be raised from investors who will take the risk for dividend returns or capital gains, or a specific share of the business.

### Borrowing Working Capital

Chapter II defined working capital as the difference between current assets and current liabilities. To the extent that a business does not generate enough money to pay trade debt as it comes due, this cash must be borrowed.

Commercial banks obviously are the largest source of such loans, which have the following characteristics: 1) The loans are short-term but renewable; 2) they may fluctuate according to seasonal needs or follow a fixed schedule of repayment (amortization); 3) they require periodic full repayment ("clean up"); 4) they are granted primarily only when the ratio of net current assets comfortably exceeds net current liabilities; and 5) they are sometimes unsecured but more often secured by current assets (e.g., accounts receivable and inventory). Advances can usually be obtained for as much as 70 to 80 percent of quality (likely to be paid) receivables and to 40 to 50 percent of inventory. Banks grant unsecured credit only when they feel the general liquidity and overall financial strength of a business provide assurance for repayment of the loan.

You may be able to predict a specific interval, say three to five months, for which you need financing. A bank may then agree to issue credit for a specific term. Most likely, you will need working capital to finance outflow peaks in your business cycle. Working capital then supplements equity. Most working capital credits are established on a one-year basis.

Although most unsecured loans fall into the one-year line of credit category, another frequently used type, the amortizing loan, calls for a fixed program of reduction, usually on a monthly or quarterly basis. For such loans your bank is likely to agree to terms longer than a year, as long as you continue to meet the principal reduction schedule.

It is important to note that while a loan from a bank for working capital can be negotiated only for a relatively short term, satisfactory performance can allow the arrangement to be continued indefinitely.

Most banks will expect you to pay off your loans once a year (particularly

if they are unsecured) in perhaps 30 or 60 days. This is known as "the annual clean up," and it should occur when the business has the greatest liquidity. This debt reduction normally follows a seasonal sales peak when inventories have been reduced and most receivables have been collected.

You may discover that it becomes progressively more difficult to repay debt or "clean up" within the specified time. This difficulty usually occurs because: 1) Your business is growing and its current activity represents a considerable increase over the corresponding period of the previous year; 2) you have increased your short-term capital requirement because of new promotional programs or additional operations; or 3) you are experiencing a temporary reduction in profitability and cash flow.

Frequently, such a condition justifies obtaining both working capital and amortizing loans. For example, you might try to arrange a combination of a \$15,000 open line of credit to handle peak financial requirements during the business cycle and \$20,000 in amortizing loans to be repaid at, say \$4,000 per quarter. In appraising such a request, a commercial bank will insist on justification based on past experience and future projections. The bank will want to know: How the \$15,000 line of credit will be self-liquidating during the year (with ample room for the annual clean up); and how your business will produce increased profits and resulting cash flow to meet the schedule of amortization on the \$20,000 portion in spite of increasing your business's interest expense.

#### Borrowing Growth Capital

Lenders expect working capital loans to be repaid through cash generated in the short-term operations of the business, such as, selling goods or services and collecting receivables. Liquidity rather than overall profitability supports such borrowing programs. Growth capital loans are usually scheduled to be repaid over longer periods with profits from business activities extending several years into the future. Growth capital loans are, therefore secured by collateral such as machinery and equipment, fixed assets which guarantee that lenders will recover their money should the business be unable to make repayment.

For a growth capital loan you will need to demonstrate that the growth capital will be used to increase your cash flow through increased sales, cost savings, and/or more efficient production. Although your building, equipment, or machinery will probably be your collateral for growth capital funds, you will also be able to use them for general business purposes, so long as the activity you use them for promises success. Even if you borrow only to acquire a single piece of new equipment, the lender is likely to insist that all your machinery and equipment be pledged.

Instead of bank financing a particular piece of new equipment, it may be possible to arrange a lease. You will not actually own the equipment, but you will have exclusive use of it over a specified period. Such an arrangement usually has tax advantages. It lets you use funds that would be tied up in the equipment, if you had purchased it. It also affords the opportunity to make sure the equipment meets your needs before you purchase it.

Major equipment may also be purchased on a time payment plan, sometimes called a Conditional Sales Purchase. Ownership of the property is retained by the seller until the buyer has made all the payments required by the contract. (Remember, however, that time payment purchases usually require substantial down payments and even leases require cash advances for several months of lease payments.)

Long-term growth capital loans for more than five but less than fifteen years are also obtainable. Real estate financing with repayment over many years on an established schedule is the best example. The loan is secured by the land and/or buildings the money was used to buy. Most businesses are best financed by a combination of these various credit arrangements.

When you go to a bank to request a loan, you must be prepared to present your company's case persuasively. You should bring your financial plan consisting of a Cash Budget for the next twelve months, Pro Forma Balance Sheets, and Income Statements for the next three to five years. You should be able to explain and amplify these statements and the underlying assumptions on which the figures are based. Obviously, your assumptions must be convincing and your projections supportable. Finally, many banks prefer statements audited by an outside accountant with the accountant's signed opinion that the statements were prepared in accordance with generally accepted accounting principles and that they fairly present the financial condition of your business.

If borrowing growth capital is necessary and no private conventional source can be found, the U.S. Small Business Administration (SBA) may be able to guarantee up to 90 percent of a local bank loan. By law, SBA cannot consider a loan application without evidence that the loan could not be obtained elsewhere on reasonable terms without SBA assistance. Even for such guaranteed loans, however, the borrower must demonstrate the ability to repay.

#### Borrowing Permanent Equity Capital

Permanent capital sometimes comes from sources other than the business owner/manager. Considered ownership contributions, they are different

from  
"stockholders equity" in the traditional sense of the phrase. Small  
Business Investment Companies (SBIC's) licensed and financed by the  
Small  
Business Administration are authorized to provide venture capital to  
small  
business concerns. This capital may be in the form of secured and/or  
unsecured loans or debt securities represented by common and preferred  
stock.

Venture capital, another source of equity capital, is extremely  
difficult  
to define; however, it is high risk capital offered with the principal  
objective of earning capital gains for the investor. While venture  
capitalists are usually prepared to wait longer than the average  
investor  
for a profitable return, they usually expect in excess of 15 percent  
return  
on their investment. Often they expect to take an active part in  
determining the objectives of the business. These investors may also  
assist  
the small business owner/manager by providing experienced guidance in  
marketing, product ideas, and additional financing alternatives as the  
business develops. Even though turning to venture capital may create  
more  
bosses, their advice could be as valuable as the money they lend. Be  
aware,  
however, that venture capitalists are looking for businesses with real  
potential for growth and for future sales in the millions of dollars.

Figure 7-1  
Financing Sources for Your Business

Equity (Sell part of company)

- \* Family, friends, and other non-professional investors
- \* Venture Capitalists
- \* Small Business Investment Companies (SBICs and MESBICs)

Personal Loans

- \* Banks
  - Unsecured loans (rare)
  - Loans secured by:
    - Real Estate
    - Stocks and Bonds
- \* Finance Companies
  - Loans secured by:
    - Real Estate
    - Personal Assets
- \* Credit Unions
  - Unsecured "signature" loans
  - Loans secured by:
    - Real Estate (some credit unions)
    - Personal Assets
- \* Savings and Loan Associations
  - Unsecured loans (rare)
  - Loans secured by Real Estate
- \* Mortgage Brokers and Private Investors
  - Loans secured by Real Estate
- \* Life Insurance Companies
  - Policy loans (borrow against cash value)



## Business Loans

### Loans

- \* Banks (short-term)
  - Unsecured loans (for established, financially sound companies only)
  - Loans secured by:
    - Accounts Receivable
    - Inventory
    - Equipment
- \* Banks (long-term)
  - Loans secured by:
    - Real Estate
  - Loans guaranteed by:
    - Small Business Administration (SBA)
    - Farmers Home Administration (FmHA)
- \* Commercial Finance Companies
  - Loans secured by:
    - Real Estate
    - Equipment
    - Inventory
    - Accounts Receivable
- \* Life Insurance Companies
  - Loans secured by commercial Real Estate (worth at least \$150,000)
- \* Small Business Administration (SBA)
  - Loans secured by:
    - All available business assets
    - All available personal assets
- \* Suppliers
  - Trade Credit
- \* Customers
  - Prepayment on orders

### Leasing

- \* Banks
- \* Leasing Companies
  - Loans secured by:
    - Equipment
- Sales of Receivables (called "factoring")

(Source: The Business Store, Santa Rosa, California.)

### Applying for Capital

Below is the minimum information you must make available to lenders and investors:

1. Discussion of the Business
  - \* Name, address, and telephone number.
  - \* Type of business you are in now or want to expand or start.
2. Amount of Money You Need to Borrow
  - \* Ask for all you will need. Don't ask for a part of the total and think you can come back for more later. This could indicate to the lender that you are a poor planner.
3. How You Will Use the Money
  - \* List each way the borrowed money will be used.
  - \* Itemize the amount of money required for each purpose.

#### 4. Proposed Terms of the Loan

\* Include a payback schedule. Even though the lender has the final say

in setting the terms of the loan, if you suggest terms, you will retain a negotiating position.

#### 5. Financial Support Documents

\* Show where the money will come from to repay the loan through the following projected statements:

- Profit and Loss Statements (one year for working capital loan requests and three to five years for growth capital requests)
- Cash Flow Statements (one year for working capital loan requests and three to five years for growth capital requests)

#### 6. Financial History of the Business

\* Include the following financial statements for the last three years:

- Balance Sheet
- Profit and Loss Statement
- Accounts Receivable and Accounts Payable Listings and Agings

#### 7. Personal Financial Statement of the Owner(s)

- \* Personal Assets and Liabilities
- \* Resume(s)

#### 8. Other Useful information Includes

- \* Letters of Intent from Prospective Customers
- \* Leases or Buy/Sell Agreements Affecting Your Business
- \* Reference Letters

Although it is not required, it is useful to calculate the ratios described

in Chapter III for your business over the past three years. Use this information to prove the strong financial health and good trends in your business's development and to demonstrate that you use such management tools to plan and control your business's growth.

### VIII. Financial Management Planning

Studies overwhelmingly identify bad management as the leading cause of business failure. Bad management translates to poor planning by management.

All too often, the owner is so caught up in the day-to-day tasks of getting the product out the door and struggling to collect receivables to meet the

payroll that he or she does not plan. There never seems to be time to prepare Pro Forms or Budgets. Often new managers understand their products

but not the financial statements or the bookkeeping records, which they feel are for the benefit of the IRS or the bank. Such overburdened owner/managers can scarcely identify what will affect their businesses next

week, let alone over the coming months and years. But, you may ask, "What

should I do? How can I, as a small business owner/manager, avoid getting bogged down? How can I ensure success?"

Success may be ensured only by focusing on all factors affecting a business's performance. Focusing on planning is essential to survival.

Short-term planning is generally concerned with profit planning or budgeting. Long-term planning is generally strategic, setting goals for sales growth and profitability over a minimum of three to five years.

The tools for short- and long-term plans have been explained in the previous chapters: Pro Forma Income Statements, Cash Flow Statements or Budgets, Ratio Analysis, and pricing considerations. The business's short-term plan should be prepared on a monthly basis for a year into the future, employing the Pro Forma Income Statement and the Cash Flow Budget.

### Long-Term Planning

The long-term or strategic plan focuses on Pro Forma Statements of Income prepared for annual periods three to five years into the future. You may be asking yourself, "How can I possibly predict what will affect my business that far into the future?" Granted, it's hard to imagine all the variables that will affect your business in the next year, let alone the next three to five years. The key, however, is control--control of your business's future course of expansion through the use of the financial tools explained in the preceding chapters.

First determine a rate of growth that is desirable and reasonably attainable. Then employ Pro Forms and Cash Flow Budgets to calculate the capital required to finance the inventory, plant, equipment, and personnel needs necessary to attain that growth in sales volume. The business owner/manager must anticipate capital needs in time to make satisfactory arrangements for outside funds if internally generated funds from retained earnings are insufficient.

Growth can be funded in only two ways: with profits or by borrowing. If expansion outstrips the capital available to support higher levels of accounts receivable, inventory, fixed assets, and operating expenses, a business's development will be slowed or stopped entirely by its failure to meet debts as they become payable. Such insolvency will result in the business's assets being liquidated to meet the demands of the creditors. The only way to avoid this "outstripping of capital" is by planning to control growth. Growth must be understood to be controlled. This understanding requires knowledge of past financial performance and of the future requirements of the business.

These needs must be forecast in writing--using the Pro Forma Income Statement in particular--for three to five years in the future. After projecting reasonable sales volumes and profitability, use the Cash Flow Budget to determine (on a quarterly basis for the next three to five years)

how these projected sales volumes translate into the flow of cash in and out of the business during normal operations. Where additional inventory, equipment, or other physical assets are necessary to support the sales forecast you must determine whether or not the business will generate enough profit to sustain the growth forecast.

Often, businesses simply grow too rapidly for internally generated cash to sufficiently support the growth. If profits are inadequate to carry the growth forecast, the owner/manager must either make arrangements for working growth capital to be borrowed, or slow growth to allow internal cash to "catch up" and keep pace with the expansion. Because arranging financing and obtaining additional equity capital takes time, this need must be anticipated well in advance to avoid business interruption.

To develop effective long-term plans, you should do the following steps:

1. Determine your personal objectives and how they affect your willingness and ability to pursue financial goals for your business. This consideration, often overlooked, will help you determine whether or not your business goals fit your personal plans. For example, suppose you hope to become a millionaire by age 45 through your business but your long-term strategic plan reveals that only modest sales growth and very slim profit margins on that volume are attainable in your industry. You must either adjust your personal goals or get into a different business. Long-range planning enables you to be realistic about the future of your personal and business expectations.
2. Set goals and objectives for the company (growth rates, return on investment direction as the business expands and matures). Express these goals in specific numbers, for example, sales growth of 10 percent a year, increases in gross and net profit margins of 2 to 3 percent a year, a return on investment of not less than 9 to 10 percent a year. Use these long-range plans to develop forecasts of sales and profitability and compare actual results from operations to these forecasts. If after these goals are established actual performance continuously falls short of target, the wise business owner will reassess both the realism of expectations and the desirability of continuing to pursue the enterprise.
3. Develop long-range plans that enable you to attain your goals and objectives. Focus on the strengths and weaknesses of your business and on internal and external factors that will affect the accomplishment of your goals. Develop strategies based upon careful analysis of all relevant factors (pricing strategies, market potential, competition, cost of borrowed and equity capital as compared to using only profits for expansions, etc.) to provide direction for the future of your business.
4. Focus on the financial, human, and physical requirements necessary to

fulfill your plan by developing forecasts of sales, expenses, and retain earnings over the next three to five years.

5. Study methods of operation, product mix, new market opportunities, and other such factors to help identify ways to improve your company's productivity and profitability.

6. Revise, revise. Always use your most recent financial statements to adjust your short- and long-term plans. Compare your company's financial performance regularly with current industry data to determine how your results compare with others in your industry. Learn where your business may have performance weaknesses. Don't be afraid to modify your plans if your expectations have been either too aggressive or too conservative.

Planning is a perpetual process. It is the key to prosperity for your business.

#### For Further Information

#### U.S. Small Business Administration Publications

##### Business Development Booklets

The following booklets and other publications are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402. Write GPO to obtain SBA Order Form 115B, which lists publications and current prices.

Handbook of Small Business Finance--Small Business Management Series No. 15.

Ratio Analysis for Small Business--Small Business Management Series No. 20.

Guides for Profit Planning--Small Business Management Series No. 25.

Financial Control by Time-Absorption Analysis--Small Business Management Series No. 37.

Purchasing Management and Inventory Control for Small Business--Small Business Management Series No. 41.

Managing for Profits--Nonseries (GPO Stock No. 045-000-00206-3).

##### Business Development Pamphlets

Many pamphlets are available from the U.S. Small Business Administration for a small processing fee. Write SBA, P. O. Box 15434, Fort Worth, TX 76119 to request SBA Order Form 115A.

#### Other Sources

Retailing, Principles and Methods, Richard D. Irwin, Inc., Chicago, IL.

"Understanding Financial Statements," Small Business Reporter, 1980, Bank

of America NT & SA, San Francisco, CA.

## A Venture Capital Primer For Small Business

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### Summary

Small businesses never seem to have enough money. Bankers and suppliers, naturally, are important in financing small business growth through loans and credit, but an equally important source of long term growth capital is the venture capital firm. Venture capital financing may have an extra bonus, for if a small firm has an adequate equity base, banks are more willing to extend credit.

This Aid discusses what venture capital firms look for when they analyze a company and its proposal for investment, the kinds of conditions venture firms may require in financing agreements, and the various types of venture capital investors. It stresses the importance of formal financial planning as the first step to getting venture capital financing.

### What Venture Capital Firms Look For

One way of explaining the different ways in which banks and venture capital firms evaluate a small business seeking funds, put simply, is: Banks look at its immediate future, but are most heavily influenced by its past. Venture capitalists look to its longer run future.

To be sure, venture capital firms and individuals are interested in many of the same factors that influence bankers in their analysis of loan applications from smaller companies. All financial people want to know the results and ratios of past operations, the amount and intended use of the needed funds, and the earnings and financial condition of future projections. But venture capitalists look much more closely at the features of the product and the size of the market than do commercial banks.

Banks are creditors. They're interested in the product/market position of the company to the extent they look for assurance that this service or product can provide steady sales and generate sufficient cash flow to repay

the loan. They look at projections to be certain that owner/managers have done their homework.

Venture capital firms are owners. They hold stock in the company, adding their invested capital to its equity base. Therefore, they examine existing or planned products or services and the potential markets for them with extreme care. They invest only in firms they believe can rapidly increase sales and generate substantial profits.

Why? Because venture capital firms invest for long-term capital, not for interest income. A common estimate is that they look for three to five times their investment in five or seven years.

Of course venture capitalists don't realize capital gains on all their investments. Certainly they don't make capital gains of 300% to 500% except on a very limited portion of their total investments. But their intent is to find venture projects with this appreciation potential to make up for investments that aren't successful.

Venture capital is a risky business, because it's difficult to judge the worth of early stage companies. So most venture capital firms set rigorous policies for venture proposal size, maturity of the seeking company, requirements and evaluation procedures to reduce risks, since their investments are unprotected in the event of failure.

Size of the Venture Proposal. Most venture capital firms are interested in investment projects requiring an investment of \$250,000 to \$1,500,000. Projects requiring under \$250,000 are of limited interest because of the high cost of investigation and administration; however, some venture firms will consider smaller proposals, if the investment is intriguing enough.

The typical venture capital firm receives over 1,000 proposals a year. Probably 90% of these will be rejected quickly because they don't fit the established geographical, technical, or market area policies of the firm--or because they have been poorly prepared.

The remaining 10% are investigated with care. These investigations are expensive. Firms may hire consultants to evaluate the product, particularly when it's the result of innovation or is technologically complex. The market size and competitive position of the company are analyzed by contacts with present and potential customers, suppliers, and others. Production costs are reviewed. The financial condition of the company is confirmed by an auditor. The legal form and registration of the business are checked. Most importantly, the character and competence of the management are evaluated by the venture capital firm, normally via a thorough background check.

These preliminary investigations may cost a venture firm between \$2,000 and \$3,000 per company investigated. They result in perhaps 10 to 15 proposals

of interest. Then, second investigations, more thorough and more expensive than the first, reduce the number of proposals under consideration to only three or four. Eventually the firm invests in one or two of these.

**Maturity of the Firm Making the Proposal.** Most venture capital firms' investment interest is limited to projects proposed by companies with some operating history, even though they may not yet have shown a profit. Companies that can expand into a new product line or a new market with additional funds are particularly interesting. The venture capital firm can provide funds to enable such companies to grow in a spurt rather than gradually as they would on retained earnings.

Companies that are just starting or that have serious financial difficulties may interest some venture capitalists, if the potential for significant gain over the long run can be identified and assessed. If the venture firm has already extended its portfolio to a large risk concentration, they may be reluctant to invest in these areas because of increased risk of loss.

However, although most venture capital firms will not consider a great many proposals from start-up companies, there are a small number of venture firms that will do only "start-up" financing. The small firm that has a well thought-out plan and can demonstrate that its management group has an outstanding record (even if it is with other companies) has a decided edge in acquiring this kind of seed capital.

**Management of the Proposing Firm.** Most venture capital firms concentrate primarily on the competence and character of the proposing firm's management. They feel that even mediocre products can be successfully manufactured, promoted, and distributed by an experienced, energetic management group.

They look for a group that is able to work together easily and productively, especially under conditions of stress from temporary reversals and competitive problems. They know that even excellent products can be ruined by poor management. Many venture capital firms really invest in management capability, not in product or market potential.

Obviously, analysis of managerial skill is difficult. A partner or senior executive of a venture capital firm normally spends at least a week at the offices of a company being considered, talking with and observing the management, to estimate their competence and character.

Venture capital firms usually require that the company under consideration have a complete management group. Each of the important functional areas--product design, marketing, production, finance, and control--must be under the direction of a trained, experienced member of the group.



Responsibilities must be clearly assigned. And, in addition to a thorough understanding of the industry, each member of the management team must be firmly committed to the company and its future.

The "Something Special" in the Plan. Next in importance to the excellence of the proposing firm's management group, most venture capital firms seek a distinctive element in the strategy or product/market/process combination of the firm. This distinctive element may be a new feature of the product or process or a particular skill or technical competence of the management. But it must exist. It must provide a competitive advantage.

#### Elements of a Venture Proposal

Purpose and Objectives--a summary of the what and why of the project.

Proposed Financing--the amount of money you'll need from the beginning to the maturity of the project proposed, how the proceeds will be used, how you plan to structure the financing, and why the amount designated is required.

Marketing--a description of the market segment you've got or plan to get, the competition, the characteristics of the market, and your plans (with costs) for getting or holding the market segment you're aiming at.

History of the Firm--a summary of significant financial and organizational milestones, description of employees and employee relations, explanations of banking relationships, recounting of major services or products your firm has offered during its existence, and the like.

Description of the Product or Service--a full description of the product (process) or service offered by the firm and the costs associated with it in detail.

Financial Statements--both for the past few years and pro forma projections (balance sheets, income statements, and cash flows) for the next 3-5 years, showing the effect anticipated if the project is undertaken and if the financing is secured. (This should include an analysis of key variables affecting financial performance, showing what could happen if the projected level of revenue is not attained.)

Capitalization--a list of shareholders, how much is invested to date, and in what form (equity/debt).

Biographical Sketches--the work histories and qualifications of key owners/employees.

## Principal Suppliers and Customers

Problems Anticipated and Other Pertinent Information--a candid discussion of any contingent liabilities, pending litigation, tax or patent difficulties, and any other contingencies that might affect the project you're proposing.

Advantages--a discussion of what's special about your product, service, marketing plans or channels that gives your project unique leverage.

## Provisions of the Investment Proposal

What happens when, after the exhaustive investigation and analysis, the venture capital firm decides to invest in a company? Most venture firms prepare an equity financing proposal that details the amount of money to be provided, the percentage of common stock to be surrendered in exchange for these funds, the interim financing method to be used, and the protective covenants to be included.

This proposal will be discussed with the management of the company to be financed. The final financing agreement will be negotiated and generally represents a compromise between the management of the company and the partners or senior executives of the venture capital firm. The important elements of this compromise are: ownership, control, annual charges, and final objectives.

Ownership. Venture capital financing is not inexpensive for the owners of a small business. The partners of the venture firm buy a portion of the business's equity in exchange for their investment.

This percentage of equity varies, of course, and depends upon the amount of money provided, the success and worth of the business, and the anticipated investment return. It can range from perhaps 10% in the case of an established, profitable company to as much as 80% or 90% for beginning or financially troubled firms.

Most venture firms, at least initially, don't want a position of more than 30% to 40% because they want the owner to have the incentive to keep building the business. If additional financing is required to support business growth, the outsiders' stake may exceed 50%, but investors realize that small business owner-managers can lose their entrepreneurial zeal under those circumstances. In the final analysis, however, the venture firm, regardless of its percentage of ownership, really wants to leave control in the hands of the company's managers, because it is really investing in that management team in the first place.

Most venture firms determine the ratio of funds provided to equity requested by a comparison of the present financial worth of the contributions made by each of the parties to the agreement. The present value of the contribution by the owner of a starting or financially troubled company is obviously rated low. Often it is estimated as just

the existing value of his or her idea and the competitive costs of the owner's time. The contribution by the owners of a thriving business is valued much higher. Generally, it is capitalized at a multiple of the current earnings and/or net worth.

Financial valuation is not an exact science. The final compromise on the owner's contribution's worth in the equity financing agreement is likely to be much lower than the owner thinks it should be and considerably higher than the partners of the capital firm think it might be. In the ideal situation, of course, the two parties to the agreement are able to do together what neither could do separately: 1) the company is able to grow fast enough with the additional funds to do more than overcome the owner's loss of equity, and 2) the investment grows at a sufficient rate to compensate the venture capitalists for assuming the risk.

An equity financing agreement with an outcome in five to seven years which pleases both parties is ideal. Since, of course, the parties can't see this outcome in the present, neither will be perfectly satisfied with the compromise reached.

It is important, though, for the business owner to look at the future. He or she should carefully consider the impact of the ratio of funds invested to the ownership given up, not only for the present, but for the years to come.

Control. Control is a much simpler issue to resolve. Unlike the division of equity over which the parties are bound to disagree, control is an issue in which they have a common (though perhaps unapparent) interest. While it's understandable that the management of a small company will have some anxiety in this area, the partners of a venture firm have little interest in assuming control of the business. They have neither the technical expertise nor the managerial personnel to run a number of small companies in diverse industries. They much prefer to leave operating control to the existing management.

The venture capital firm does, however, want to participate in any strategic decisions that might change the basic product/market character of the company and in any major investment decisions that might divert or deplete the financial resources of the company. They will, therefore, generally ask that at least one partner be made a director of the company.

Venture capital firms also want to be able to assume control and attempt to rescue their investments, if severe financial, operating, or marketing problems develop. Thus, they will usually include protective covenants in their equity financing agreements to permit them to take control and appoint new officers if financial performance is very poor.

Annual Charges. The investment of the venture capital firm may be in the final form of direct stock ownership which does not impose fixed charges.

More likely, it will be in an interim form--convertible subordinated debentures or preferred stock. Financing may also be straight loans with options or warrants that can be converted to a future equity position at a pre-established price.

The convertible debenture form of financing is like a loan. The debentures can be converted at an established ratio to the common stock of the company within a given period, so that the venture capital firm can prepare to realize their capital gains at their option in the future. These instruments are often subordinated to existing and planned debt to permit the company invested in to obtain additional bank financing.

Debentures also provide additional security and control for the venture firm and impose a fixed charge for interest (and sometimes for principal payment, too) upon the company. The owner-manager of a small company seeking equity financing should consider the burden of any fixed annual charges resulting from the financing agreement.

Final Objectives. Venture capital firms generally intend to realize capital gains on their investments by providing for a stock buy-back by the small firm, by arranging a public offering of stock of the company invested in, or by providing for a merger with a larger firm that has publicly traded stock. They usually hope to do this within five to seven years of their initial investment. (It should be noted that several additional stages of financing may be required over this period of time.)

Most equity financing agreements include provisions guaranteeing that the venture capital firm may participate in any stock sale or approve any merger, regardless of their percentage of stock ownership. Sometimes the agreement will require that the management work toward an eventual stock sale or merger. Clearly, the owner-manager of a small company seeking equity financing must consider the future impact upon his or her own stock holdings and personal ambition of the venture firm's aims, since taking in a venture capitalist as a partner may be virtually a commitment to sell out or go public.

Types of Venture Capital Firms

There is quite a variety of types of venture capital firms. They include:

Traditional partnerships--which are often established by wealthy families to aggressively manage a portion of their funds by investing in small companies;

Professionally managed pools--which are made up of institutional money and which operate like the traditional partnerships;

Investment banking firms--which usually trade in more established securities, but occasionally form investor syndicates for venture proposals;

Insurance companies--which often have required a portion of equity as a condition of their loans to smaller companies as protection against inflation;

Manufacturing companies--which have sometimes looked upon investing in smaller companies as a means of supplementing their R&D programs (Some "Fortune 500" corporations have venture capital operations to help keep them abreast of technological innovations); and

Small Business Investment Corporations (SBIC's)--which are licensed by the Small Business Administration (SBA) and which may provide management assistance as well as venture capital. (When dealing with SBIC's, the small business owner-manager should initially determine if the SBIC is primarily interested in an equity position, as venture capital, or merely in long term lending on a fully secured basis.)

In addition to these venture capital firms there are individual private investors and finders. Finders, which can be firms or individuals, often know the capital industry and may be able to help the small company seeking capital to locate it, though they are generally not sources of capital themselves. Care should be exercised so that a small business owner deals with reputable, professional finders whose fees are in line with industry practice. Further, it should be noted that venture capitalists generally prefer working directly with principals in making investments, though finders may provide useful introductions.

#### The Importance of Formal Financial Planning

In case there is any doubt about the implications of the previous sections, it should be noted: It is extremely difficult for any small firm--especially the starting or struggling company--to get venture capital.

There is one thing, however, that owner-managers of small businesses can do to improve the chances of their venture proposals at least escaping the 90% which are almost immediately rejected. In a word--plan.

Having financial plans demonstrates to venture capital firms that you are a competent manager, that you may have that special managerial edge over other small business owners looking for equity money. You may gain a decided advantage through well-prepared plans and projections that include:  
cash budgets, pro forma statements, and capital investment analysis and capital source studies.

Cash budgets should be projected for one year and prepared monthly. They should combine expected sales revenues, cash receipts, material, labor and overhead expenses, and cash disbursements on a monthly basis. This permits anticipation of fluctuations in the level of cash and planning for short term borrowing and investment.

Pro forma statements should be prepared for planning up to 3 years ahead. They should include both income statements and balance sheets. Again, these should be prepared quarterly to combine expected sales revenues; production, marketing, and administrative expenses; profits; product, market, or process investments; and supplier, bank, or investment company borrowings. Pro forma statements permit you to anticipate the financial results of your operations and to plan intermediate term borrowings and investments.

Capital investment analyses and capital source studies should be prepared for planning up to 5 years ahead. The investment analyses should compare rates of return for product, market, or process investment, while the source alternatives should compare the cost and availability of debt and equity and the expected level of retained earnings, which together will support the selected investments. These analyses and source studies should be prepared quarterly so you may anticipate the financial consequences of changes in your company's strategy. They will allow you to plan long term borrowings, equity placements, and major investments.

There's a bonus in making such projections. They force you to consider the results of your actions. Your estimates must be explicit; you have to examine and evaluate your managerial records; disagreements have to be resolved--at least discussed and understood. Financial planning may be burdensome but it's one of the keys to business success.

Now, making these financial plans will not guarantee that you'll be able to get venture capital. Not making them, will virtually assure that you won't receive favorable consideration from venture capitalists.

## The ABC's of Borrowing

### Summary

Some small business persons cannot understand why a lending institution refused to lend them money. Others have no trouble getting funds, but they are surprised to find strings attached to their loans. Such owner-managers full to realized that banks and other lenders have to operate by certain principles just as do other types of business.

This Aid discusses the following fundamentals of borrowing: (1) credit worthiness, (2) kinds of loans, (3) amount of money needed, (4) collateral, (5) loan restrictions and limitations, (6) the loan application, and (7) standards which the lender uses to evaluate the application.

### Introduction

Inexperience with borrowing procedures often creates resentment and bitterness. The stories of three small business persons illustrate this point.

"I'll never trade here again," Bill Smith said when his bank refused to grant him a loan. "I'd like to let you have it, Bill," the banker said, "but your firm isn't earning enough to meet your current obligations." Mr. Smith was unaware of a vital financial fact, namely, that lending institutions have to be certain that the borrower's business can repay the loan.

Tom Jones lost his temper when the bank refused him a loan because he did not know what kind or how much money he needed. "We hesitate to lend," the banker said, "to business owners with such vague ideas of what and how much they need."

John Williams' case was somewhat different. He didn't explode until after he got the loan. When the papers were ready to sign, he realized that the loan agreement put certain limitations on his business activities. "You can't dictate to me," he said and walked out of the bank. What he didn't realize was that the limitations were for his good as well as for the bank's protection.

Knowledge of the financial facts of business life could have saved all three the embarrassment of losing their tempers. Even more important, such information would have helped them to borrow money at a time when their businesses needed it badly.

This Aid is designed to give the highlights of what is involved in sound business borrowing. It should be helpful to those who have little or no experience with borrowing. More experienced owner-managers should find it useful in re-evaluating their borrowing operations.

## Is Your Firm Credit Worthy?

The ability to obtain money when you need it is as necessary to the operation of your business as is a good location or the right equipment, reliable sources of supplies and materials, or an adequate labor force. Before a bank or any other lending agency will lend you money, the loan officer must feel satisfied with the answers to the five following questions:

1. What sort of person are you, the prospective borrower? By all odds, the character of the borrower comes first. Next is your ability to manage your business.
2. What are you going to do with the money? The answer to this question will determine the type of loan, short or long-term. Money to be used for the purchase of seasonal inventory will require quicker repayment than money used to buy fixed assets.
3. When and how do you plan to pay it back? Your banker's judgment of your business ability and the type of loan will be a deciding factor in the answer to this question.
4. Is the cushion in the loan large enough? In other words, does the amount requested make suitable allowance for unexpected developments? The banker decides this question on the basis of your financial statement which sets forth the condition of your business and on the collateral pledged.
5. What is the outlook for business in general and for your business particularly?

Adequate Financial Data is a "Must."

The banker wants to make loans to businesses which are solvent, profitable, and growing. The two basic financial statements used to determine those conditions are the balance sheet and profit-and-loss statement. The former is the major yardstick for solvency and the latter for profits. A continuous series of these two statements over a period of time is the principal device for measuring financial stability and growth potential.

In interviewing loan applicants and in studying their records, the banker is especially interested in the following facts and figures.

**General Information:** Are the books and records up-to-date and in good condition? What is the condition of accounts payable? Of notes payable? What are the salaries of the owner-manager and other company officers? Are all taxes being paid currently? What is the order backlog? What is the number of employees? What is the insurance coverage?

**Accounts Receivable:** Are there indications that some of the accounts



receivable have already been pledged to another creditor? What is the accounts receivable turnover? Is the accounts receivable total weakened because many customers are far behind in their payments? Has a large enough reserve been set up to cover doubtful accounts? How much do the largest accounts owe and what percentage of your total accounts does this amount represent?

**Inventories:** Is merchandise in good shape or will it have to be marked down? How much raw material is on hand? How much work is in process? How much of the inventory is finished goods?

Is there any obsolete inventory? Has an excessive amount of inventory been consigned to customers? Is inventory turnover in line with the turnover for other businesses in the same industry? Or is money being tied up too long in inventory?

**Fixed Assets:** What is the type, age, and condition of the equipment? What are the depreciation policies? What are the details of mortgages or conditional sales contracts? What are the future acquisition plans?

**What Kind of Money?**

When you set out to borrow money for your firm, it is important to know the kind of money you need from a bank or other lending institution. There are three kinds of money: short term, term money, and equity capital.

Keep in mind that the purpose for which the funds are to be used is an important factor in deciding the kind of money needed. But even so, deciding what kind of money to use is not always easy. It is sometimes complicated by the fact that you may be using some of the various kinds of money at the same time and for identical purposes.

Keep in mind that a very important distinction between the types of money is the source of repayment. Generally, short-term loans are repaid from the liquidation of current assets which they have financed. Long-term loans are usually repaid from earnings.

**Short-Term Bank Loans**

You can use short-term bank loans for purposes such as financing accounts receivable for, say 30 to 60 days. Or you can use them for purposes that take longer to pay off--such as for building a seasonal inventory over a period of 5 to 6 months. Usually, lenders expect short-term loans to be repaid after their purposes have been served: for example, accounts receivable loans, when the outstanding accounts have been paid by the borrower's customers, and inventory loans, when the inventory has been converted into saleable merchandise.

Banks grant such money either on your general credit reputation with an

unsecured loan or on a secured loan.

The unsecured loan is the most frequently used form of bank credit for short-term purposes. You do not have to put up collateral because the bank relies on your credit reputation.

The secured loan involves a pledge of some or all of your assets. The bank requires security as a protection for its depositors against the risks that are involved even in business situations where the chances of success are good.

#### Term Borrowing

Term borrowing provides money you plan to pay back over a fairly long time. Some people break it down into two forms: (1) intermediate--loans longer than 1 year but less than 5 years, and (2) long-term--loans for more than 5 years.

However, for your purpose of matching the kind of money to the needs of your company, think of term borrowing as a kind of money which you probably will pay back in periodic installments from earnings.

#### Equity Capital

Some people confuse term borrowing and equity (or investment) capital. Yet there is a big difference. You don't have to repay equity money. It is money you get by selling a part interest in your business.

You take people into your company who are willing to risk their money in it. They are interested in potential income rather than in an immediate return on their investment.

#### How Much Money?

The amount of money you need to borrow depends on the purpose for which you need funds. Figuring the amount of money required for business construction, conversion, or expansion--term loans or equity capital--is relatively easy. Equipment manufacturers, architects, and builders will readily supply you with cost estimates. On the other hand, the amount of working capital you need depends upon the type of business you're in. While rule-of-thumb ratios may be helpful as a starting point, a detailed projection of sources and uses of funds over some future period of time--usually for 12 months--is a better approach. In this way, the characteristics of the particular situation can be taken into account. Such a projection is developed through the combination of a predicted budget and a cash forecast.

The budget is based on recent operating experience plus your best judgment

of performance during the coming period. The cash forecast is your estimates of cash receipts and disbursements during the budget period. Thus, the budget and the cash forecast together represent your plan for meeting your working capital requirements.

To plan your working capital requirements, it is important to know the "cash flow" which your business will generate. This involves simply a consideration of all elements of cash receipts and disbursements at the time they occur. These elements are listed in the profit-and-loss statement which has been adapted to show cash flow. They should be projected for each month.

What Kind of Collateral?

Sometimes, your signature is the only security the bank needs when making a loan. At other times, the bank requires additional assurance that the money will be repaid. The kind and amount of security depends on the bank and on the borrower's situation.

If the loan required cannot be justified by the borrower's financial statements alone, a pledge of security may bridge the gap. The types of security are: endorsers; comaker and guarantors; assignment of leases; trust receipts and floor planning; chattel mortgages; real estate; accounts receivables; savings accounts; life insurance policies; and stocks and bonds. In a substantial number of States where the Uniform Commercial Code has been enacted, paperwork for recording loan transactions will be greatly simplified.

Endorsers, Co-makers, and Guarantors

Borrowers often get other people to sign a note in order to bolster their own credit. These endorsers are contingently liable for the note they sign. If the borrower fails to pay up, the bank expects the endorser to make the note good. Sometimes, the endorser may be asked to pledge assets or securities too.

A co-maker is one who creates an obligation jointly with the borrower. In such cases, the bank can collect directly from either the maker or the co-maker.

A guarantor is one who guarantees the payment of a note by signing a guaranty commitment. Both private and government lenders often require guarantees from officers of corporations in order to assure continuity of effective management. Sometimes, a manufacturer will act as guarantor for customers.

Assignment of Leases

The assigned lease as security is similar to the guarantee. It is used, for example, in some franchise situations.

The bank lends the money on a building and takes a mortgage. Then the lease, which the dealer and the parent franchise company work out, is assigned so that the bank automatically receives the rent payments. In this manner, the bank is guaranteed repayment of the loan.

#### Warehouse Receipts

Banks also take commodities as security by lending money on a warehouse receipt. Such a receipt is usually delivered directly to the bank and shows that the merchandise used as security either has been placed in a public warehouse or has been left on your premises under the control of one of your employees who is bonded (as in field warehousing). Such loans are generally made on staple or standard merchandise which can be readily marketed. The typical warehouse receipt loan is for a percentage of the estimated value of the goods used as security.

#### Trust Receipts and Floor Planning

Merchandise, such as automobiles, appliances, and boats, has to be displayed to be sold. The only way many small marketers can afford such displays is by borrowing money. Such loans are often secured by a note and a trust receipt.

This trust receipt is the legal paper for floor planning. It is used for serial-numbered merchandise. When you sign one, you (1) acknowledge receipt of the merchandise, (2) agree to keep the merchandise in trust for the bank, and (3) promise to pay the bank as you sell the goods.

#### Chattel Mortgages

If you buy equipment such as a cash register or a delivery truck, you may want to get a chattel mortgage loan. You give the bank a lien on the equipment you are buying.

The bank also evaluates the present and future market value of the equipment being used to secure the loan. How rapidly will it depreciate? Does the borrower have the necessary fire, theft, property damage, and public liability insurance on the equipment? The banker has to be sure that the borrower protects the equipment.

#### Real Estate

Real estate is another form of collateral for long-term loans. When taking a real estate mortgage, the bank finds out: (1) the location of the real estate, (2) its physical condition, (3) its foreclosure value, and (4) the amount of insurance carried on the property.

#### Accounts Receivable

Many banks lend money on accounts receivable. In effect, you are counting on your customers to pay your note.

The bank may take accounts receivable on a notification or a nonnotification plan. Under the notification plan, the purchaser of the goods is informed by the bank that his or her account has been assigned to it and he or she is asked to pay the bank. Under the nonnotification plan, the borrower's customers continue to pay you the sums due on their accounts and you pay the bank.

### Savings Accounts

Sometimes, you might get a loan by assigning to the bank a savings account. In such cases, the bank gets an assignment from you and keeps your passbook. If you assign an account in another bank as collateral, the lending bank asks the other bank to mark its records to show that the account is held as collateral.

### Life Insurance

Another kind of collateral is life insurance. Banks will lend up to the cash value of a life insurance policy. You have to assign the policy to the bank.

If the policy is on the life of an executive of a small corporation, corporate resolutions must be made authorizing the assignment. Most insurance companies allow you to sign the policy back to the original beneficiary when the assignment to the bank ends.

Some people like to use life insurance as collateral rather than borrow directly from insurance companies. One reason is that a bank loan is often more convenient to obtain and usually may be obtained at a lower interest rate.

### Stocks and Bonds

If you use stocks and bonds as collateral, they must be marketable. As a protection against market declines and possible expenses of liquidation, banks usually lend no more than 75 percent of the market value of high grade stock. On Federal Government or municipal bonds, they may be willing to lend 90 percent or more of their market value.

The bank may ask the borrower for additional security or payment whenever the market value of the stocks or bonds drops below the bank's required margin.

### What Are the Lender's Rules?

Lending institutions are not just interested in loan repayments. They are

also interested in borrowers with healthy profit-making businesses. Therefore, whether or not collateral is required for a loan, they set loan limitations and restrictions to protect themselves against unnecessary risk and at the same time against poor management practices by their borrowers. Often some owner/managers consider loan limitations a burden.

Yet others feel that such limitations also offer an opportunity for improving their management techniques.

Especially in making long-term loans, the borrower as well as the lender should be thinking of: (1) the net earning power of the borrowing company, (2) the capability of its management, (3) the long range prospects of the company, and (4) the long range prospects of the industry of which the company is a part. Such factors often mean that limitations increase as the duration of the loan increases.

What Kinds of Limitations?

The kinds of limitations, which an owner-manager finds set upon the company depends, to a great extent, on the company. If the company is a good risk, only minimum limitations need be set. A poor risk, of course, is different. Its limitations should be greater than those of a stronger company.

Look now for a few moments at the kinds of limitations and restrictions which the lender may set. Knowing what they are can help you see how they affect your operations.

The limitations which you will usually run into when you borrow money are:

- (1) Repayment terms.
- (2) Pledging or the use of security.
- (3) Periodic reporting.

A loan agreement, as you may already know, is a tailor-made document covering, or referring to, all the terms and conditions of the loan. With it, the lender does two things: (1) protects position as a creditor (keeps that position in as protected a state as it was on the date the loan was made) and (2) assures repayment according to the terms.

The lender reasons that the borrower's business should generate enough funds to repay the loan while taking care of other needs. The lender considers that cash inflow should be great enough to do this without hurting the working capital of the borrower.

Covenants--Negative and Positive

The actual restrictions in a loan agreement come under a section known as covenants. Negative covenants are things which the borrower may not do without prior approval from the lender. Some examples are: further additions to the borrower's total debt, non-pledge to others of the borrower's assets, and issuance of dividends in excess of the terms of the loan agreement.

On the other hand, positive covenants spell out things which the borrower must do. Some examples are: (1) maintenance of a minimum net working capital. (2) carrying of adequate insurance, (3) repaying the loan according to the terms of the agreement, and (4) supplying the lender with financial statements and reports.

Overall, however, loan agreements may be amended from time to time and exceptions made. Certain provisions may be waived from one year to the next with the consent of the lender.

#### You Can Negotiate

Next time you go to borrow money, thrash out the lending terms before you sign. It is good practice no matter how badly you may need the money. Ask to see the papers in advance of the loan closing. Legitimate lenders are glad to cooperate.

Chances are that the lender may "give" some on the terms. Keep in mind also that, while you're mulling over the terms, you may want to get the advice of your associates and outside advisors. In short, try to get terms which you know your company can live with. Remember, however, that once the terms have been agreed upon and the loan is made (or authorized as in the case of SBA), you are bound by them.

#### The Loan Application

Now you have read about the various aspects of the lending process and are ready to apply for a loan. Banks and other private lending institutions, as well as the Small Business Administration, require a loan application on which you list certain information about your business.

For the purposes of explaining a loan application, this Aid uses the Small Business Administration's application for a loan (SBA Form 4 not included).

The SBA form is more detailed than most bank forms. The bank has the advantage of prior knowledge of the applicant and his or her activities. Since SBA does not have such knowledge, its form is more detailed. Moreover, the longer maturities of SBA loans ordinarily will necessitate more knowledge about the applicant.

Before you get to the point of filling out a loan application, you should have talked with an SBA representative, or perhaps your accountant or banker, to make sure that your business is eligible for an SBA loan. Because of public policy, SBA cannot make certain types of loans. Nor can it make loans under certain conditions. For example, if you can get a loan on reasonable terms from a bank, SBA cannot lend you money. The owner-manager is also not eligible for an SBA loan if he or she can get funds by selling assets which his or her company does not need in order to grow.

When the SBA representative gives you a loan application, you will notice that most of its sections ("Application for Loan"--SBA Form 4) are self-explanatory. However, some applicants have trouble with certain sections because they do not know where to go to get the necessary information.

Section 3--"Collateral Offered" is an example. A company's books should show the net value of assets such as business real estate and business machinery and equipment. "Net" means what you paid for such assets less depreciation.

If an owner-manager's records do not contain detailed information on business collateral, such as real estate and machinery and equipment, the bank sometimes can get it from your Federal income tax returns. Reviewing the depreciation which you have taken for tax purposes on such collateral can be helpful in arriving at the value of these assets.

If you are a good manager, you should have your books balanced monthly. However, some businesses prepare balance sheets less regularly. In filling out your "Balance Sheet as of \_\_\_\_\_ 19 \_\_\_\_, Fiscal Year Ends \_\_\_\_\_," remember that you must show the condition of your business within 60 days of the date on your loan application. It is best to get expert advice when working up such vital information. Your accountant or banker will be able to help you.

#### Cash Budget

(For three months, ending March 31, 19\_\_)

AA  
AAAAAAAAAAAA

	January		February		March
	Budget	Actual	Budget	Actual	Budget
Actual					
AA	AAAAAA	AAAAAA	AAAAAA	AAAAAA	
AAAAAA AAAAAA					
Expected Cash Receipts:					
AA	AAAAAA	AAAAAA	AAAAAA	AAAAAA	
AAAAAA AAAAAA					



1. Cash sales	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
2. Collections on accounts receivable	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
3. Other income	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
4. Total cash receipts	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
Expected Cash Payments	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
5. Raw materials	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
6. Payroll	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
7. Other factory expenses (including maintenance)	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
8. Advertising	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
9. Selling expense	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
10. Administrative expense (including salary of owner-manager)	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
11. New plant and equipment	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
12. Other payments (taxes, including estimated income tax; repayment of loans; interest; etc.)	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
13. Total cash payments	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
14. Expected Cash Balance at beginning of the month	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
15. Cash increase or decrease (item 4 minus item 13)	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			
16. Expected cash balance at end of month (item 14 plus item 15)	AAAAAA	AAAAAA	AAAAAA	AAAAAA
AAAAAA	AAAAAA			

AAAAAA AAAAAA  
 17. Desired working cash balance  
 AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA AAAAAA AAAAAA AAAAAA AAAAAA  
 AAAAAA AAAAAA  
 18. Short-term loans needed  
     (item 17 minus item 16, if  
     item 17 is larger)  
 AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA AAAAAA AAAAAA AAAAAA AAAAAA  
 AAAAAA AAAAAA  
 19. Cash available for dividends,  
     capital cash expenditures,  
     and/or short investments  
     (item 16 minus item  
     17, if item 16 is larger  
     than item 17)  
 AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA  
 AAAAAA AAAAAA  
 Capital Cash:  
 AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA AAAAAA AAAAAA AAAAAA AAAAAA  
 AAAAAA AAAAAA  
 20. Cash available (item 19  
     after deducting dividends,  
     etc.)  
 AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA AAAAAA AAAAAA AAAAAA AAAAAA  
 AAAAAA AAAAAA  
 21. Desired capital cash (item  
     11, new plant equipment)  
 AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA AAAAAA AAAAAA AAAAAA AAAAAA  
 AAAAAA AAAAAA  
 22. Long-term loans needed  
     (item 21 less item 20, if  
     item 20 is larger than  
     item 20)  
 AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA AAAAAA AAAAAA AAAAAA AAAAAA  
 AAAAAA AAAAAA  
 AAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAAA  
 AAAAAA AAAAAA

Again, if your records do not show the details necessary for working up  
 profit and loss statements, your Federal income tax returns may be  
 useful  
 in getting together facts for the SBA loan application.

#### Insurance

SBA also needs information about the kinds of insurance a company  
 carries.  
 The owner-manager gives these facts by listing various insurance  
 policies.

#### Personal Finances

SBA also must know something about the personal financial condition of  
 the  
 applicant. Among the types of information are: personal cash position;  
 source of income including salary and personal investments; stocks,  
 bonds,  
 real estate, and other property owned in the applicant's own name;  
 personal  
 debts including installment credit payments, life insurance premiums,  
 and

so forth.

#### Evaluating the Application

Once you have supplied the necessary information, the next step in the borrowing process is the evaluation of your application. Whether the processing officer is in a bank or in SBA, the officer considers the same kinds of things when determining whether to grant or refuse the loan. The SBA loan processor looks for:

- (1) The borrower's debt paying record to suppliers, banks, home mortgage holders, and other creditors.
- (2) The ratio of the borrower's debt to net worth.
- (3) The past earnings of the company.
- (4) The value and condition of the collateral which the borrower offers for security.

The SBA loan processor also looks for: (1) the borrower's management ability, (2) the borrower's character, and (3) the future prospects of the borrower's business.

#### 21 STEPS TO HOME BUSINESS SUCCESS

Fifty million home-based businesses will be in operation by 1997, according to Link Resource's National Work-at Home Survey. All around the country, people who want more control over their lives are starting home businesses

In New Orleans, Rick Hart's home based cajun Cargo ships seafood nation wide. In Palatine, Illinois, Stephaine Heavey works from home designing and selling original patterns for fabric dolls. And in Dallas, Lisa McElya published the Dallas Party & Event Planners Guidebook from the entire first floor of her two-story home.

These three people are living the new American dream of owning a business, but avoiding the high overhead and start-up costs of a commercial location. If the idea of working from home is appealing, but you don't know where to begin, here is a step-by-step guide.

##### STEP #1 DECIDE WHAT PART OF THE HOUSE TO USE

Select an area away from family activity. The perfect space is a separate room (or perhaps the garage), but any area will do, if it can hold all the business supplies and equipment, and also provide enough work space for desks, tables, or counters.

##### STEP #2 DETERMINE HOW MUCH TIME YOU CAN SPEND ON THE BUSINESS

Many people start a home business on a part-time basis while

raising children or working outside the home. Others start full-time when family and finances allow. However you begin, figure out how many hours per week you can devote to the business. Make a weekly chart of your activities, examine it, and determine where the business fits. Don't assume you have time and find out later you don't.

#### STEP #3 DECIDE ON THE TYPE OF BUSINESS

Make a list of things you like to do, your work and volunteer experience, and items you own that can be used in a business. Look over this line-up, and using ideas from it, list possible businesses to start. Eliminate any business that isn't appealing or doesn't fill a need people have.

For ideas on different types of businesses, consult the end of this article. Other ideas can be found in the source material listed at the end of this article.

#### STEP #4 CHOOSE A LEGAL FORM

The three basic legal forms are sole proprietorship, partnership, and corporation. The most common is the sole proprietorship. As its name implies, a sole proprietorship is owned by one individual. It is the oldest form of business, the easiest to start, and the least complicated to dissolve. Here are some of the advantages of this business form:

1. You own all the profits
2. Your business is easy and cheap to organize. You don't need any government approval, although you may be required to carry a city, state or county license. Your only other obligation is to notify the Internal Revenue Service (IRS) for the purposes of sales tax.
3. You're the boss
4. You enjoy certain tax savings.  
You must pay regular individual taxes on your income, property, and payroll, but these are not levied as special taxes, as with a corporation. You will also have to pay sales tax which you have received from your customers.
5. Greater personal incentive and satisfaction. Since you have your investment to lose if your business is not successful, you should be more willing to put time, thought, and energy into the business. And when your business is successful, you enjoy maximum sense of accomplishment since you know its success was dependent upon your decisions about your management ability alone.

For more information about this and other forms of business, send for the U.S. Small Business Administration (SBA) Publication MP25. Selecting the Legal Structure for Your Business (50 cents). It outlines the advantages and disadvantages of each legal type of structure. If after reading it you are still uncertain what form of the business should take, consult an attorney.

#### STEP #5 DETERMINE WHERE THE MONEY WILL COME FROM

There are three ways to finance start-up costs: use your own money, obtain a loan, or find investors. If possible, it is better to start small, use your savings, and not worry about repaying a debt. Also keep in mind that since you are a home-based, chances of qualifying for a loan or finding investors

are slim until the success of your idea is proven.

#### STEP #6 GATHER INFORMATION

Spend a few weeks researching home-based businesses. A library or bookstore can provide numerous books on business basics, and on the specific type of business that interest you. *Homemade Money* by Barbara Brabee (see sources) is an excellent book to start with.

If you are considering a computer business, get in touch with the association of Electronics; Cottagers, P.O. Box 1738, Davis, CA 95617-1738. To keep informed of what is happening in home business world, contact National Home Business report, P.O. Box 2137, Naperville, IL 60566, for subscription information; and Mothers Home Business Network, P.O. Box 423, East Meadow, NY 11554 (send SASE for free information).

#### STEP #7 CHECK ON ZONING RESTRICTIONS

Find out how your property is zoned, the call City Hall and ask what regulations apply to home businesses in that zone. Also, if you rent or live in a condominium, check the lease or homeowner's association rules to be certain a home business is allowed.

Generally, if you do not annoy your neighbors with excess noise, odors, and traffic, you will not be deterred from running a business at home. The neighbors may not even be aware of the business, but it is necessary to know exactly what you can and can't do before you start. This is important should any problems or questions arise later.

#### STEP #8 PICK A BUSINESS NAME AND REGISTER IT

If the business you choose is different from your name, file an assumed (or fictitious) name certificate with the county. You are notified if another business already has that name, so you can select a new one.

Do this before investing in expensive stationery and brochures. It costs only a few dollars to file, and it protects the business name from being used by someone else in the county.

#### STEP #9 WRITE A BUSINESS PLAN

A good business plan clarifies your ideas and establishes a plan of action. A good business plan should include a description of what you are selling, your background and qualifications, who the prospective customers are and where they can be found, what is needed to build the business, how you plan to promote, and how much money is need for start-up costs.

SBA Publication #M925, *The Business Plan for Home-Based Business* (\$1) is helpful.

#### STEP #10 GET AN IDENTIFYING NUMBER

If you are the sole proprietor of the business and have no employees, you may either use your Social Security number or an Employee Identification Number (EIN) as the business number on official forms. If you have employees, or the business is set up as a partnership or corporation, you must obtain an EIN. To do

this, complete IRS Form SS-4 (Application for Employer Identification Number) and file it with the nearest IRS Center.

#### STEP #11 OBTAIN A SALES TAX PERMIT

If the product or service you sell is taxable, you need a state sales tax permit. Call the local tax agency, explain the type of business you have and what you sell, and ask if you need to collect sales tax. If you do, they will send you the necessary information and forms to complete. You also use this tax number when your purchase items for resale.

#### STEP #12 OBTAIN LICENSES & PERMITS

It's very important not to overlook any necessary license or permit. For example, some cities and counties require a general business license, and most have special laws regarding the preparation and sale of food.

Call City Hall to find out what is need for your particular business. In addition, Chamber of Commerce provide information on city, county and state licenses and permits.

#### STEP #13 SELECT BUSINESS CARDS, STATIONERY, BROCHURES

Spend time on the color, design and paper for these items. They make a definite impression-good or bad- on the people who receive them. If you are not certain what is most suitable and effective, consult a graphics designer or a creative printer whose work you like.

#### STEP #14 OPEN A BUSINESS CHECKING ACCOUNT

Call several banks to find out what services they offer, and what minimum balance, if any, must be maintained to avoid paying a service charge. Also ask about credit card if you plan to offer this convenience to your customers. Bank fees can be significant, so shop around for the best deal.

If your personal checking account is with a credit union, see if it can also provide a separate business account. when you open your account, you may need to show the assumed name certificate and business license.

Finally, investigate obtaining a credit card in the business's name. If this is not possible, set aside a personal credit card to use for business expenses.

#### STEP #15 SET UP RECORD-KEEPING SYSTEMS

Put together a simple and effective bookkeeping system with an 8 1/2 x 11" three-ring binder, columnar pad sheets and twelve pocket dividers from the office supply store. For each month, set up columnar sheets for income and expenses. Use a pocket divider for each month's receipts, bank statement, deposit tickets, and canceled checks.

In addition, an automobile log for business mileage, and filing system for correspondence, invoices, supplier catalogs, client records, etc. are two other useful tools.

For more information on record-keeping, see IRS publication #583, Information for Business taxpayers.

#### STEP #16 CHECK IRS REQUIREMENTS

If you comply with basic IRS guidelines, you can deduct a percentage of normal household expenses (mortgage, interest, taxes, insurance, utilities, repairs, etc.) as a business expense. see the box accompanying this article and, for more detailed information, IRS publication #587, Business Use of the Home.

Also become familiar with these IRS forms: Schedule SE (compensation of Social Security Self-Employment Tax) and Schedule 1040 ES (estimated Tax for Individuals). Depending on circumstances, you may have to file them.

#### STEP #17 OUTFIT THE BUSINESS

Make a list of everything needed to start the business, but before you buy anything, look around the house for things you already own that are usable.

When you are ready to start purchasing, check the classified ads and garage sales. Both are good, inexpensive sources for office furniture, typewriters, computers, answering machines, etc. But only what is absolutely necessary for start-up, and wait until the business is off the ground to get the extras.

#### STEP #18 DECIDE ON TELEPHONE REQUIREMENTS

Call the telephone company to find out the cost of a business phone in your area. If you cannot afford a separate business line, investigate the telephone company's regulations on using your personal phone in a business. It may be possible to do this if you follow certain guidelines. Keep a record of long distance business calls as they are a deductible expense. Finally, consider the benefits of an answering machine to catch calls when you are out.

#### STEP #19 CHECK OUT THE POST OFFICE & UPS

Using a post office box as the business address down plays the fact you are home-based. It also prevents customers from dropping in at all hours.

While looking into box rental, ask for information on the various postal rates, particularly bulk rate, if you plan to do large or specialized mailings. If you mail many packages, check out United Parcel Service (UPS), as it is less expensive than the Post Office.

#### STEP #20 PURCHASE THE NECESSARY INSURANCE

Check with your homeowners insurance agent about a rider for your existing policy or the need for a separate business policy. Also make sure you have adequate personal and product liability coverage. Shop around, as each company has different rules regarding home businesses

To save money on medical insurance, join an association and

participate in their group plan. One such body is The National association for the Self-Employed: they can be reached at 800-527-5504.

#### STEP #21 ORGANIZE THE HOUSE & YOURSELF

To have more time for business, organize and simplify household routines. Start by holding a garage sale to get rid of unnecessary possessions. Next, have a family conference and divide household duties, making sure each person does his or her part. Then, set up a planning notebook to keep track of appointments, things to do, calls to make, errands to run, shopping, etc. Finally, set up a work schedule so you won't get sidetracked by TV, neighbor's visits, snacking, and telephone calls.

Creating and operating a home business is a wonderful and rewarding challenge. The satisfaction is not only in the money earned, but in doing what makes you happy.

#### SOURCES

SMALL BUSINESS ADMINISTRATION. Pamphlets mentioned in this article are available by calling the nearest SBA office or ordering from SBA, P.O. Box 15434, Ft. Worth, TX 76119.

#### NEWSLETTERS

HOMEWORKING MOTHERS. Mothers' Home Business Network, dept. 10-6, P.O. Box 423. East Meadow, NY 11554: sample available for \$2 and SASE.

NATIONAL HOME BUSINESS REPORT, Barbara Brabec Productions, Dept 10-6, P.O. Box 2137, Naperville, IL 60588; \$18/year, quarterly. (Sample issue, \$4.00)

#### BOOKS, REPORTS

ELECTRONIC COTTAGE HANDBOOK #2 MAKING \$\$ WITH YOUR HOME COMPUTER by Lis Fleming. Fleming, Ltd., P.O. Box 1738, Davis, CA 95617-1738; \$7.00 ppd.

HOMEMADE MONEY by Barbara Brabec, Barbara Brabec Productions, P.O. Box 2137, Naperville, IL 60566; \$16.95

HELP FOR YOUR GROWING HOMEBASED BUSINESS by Barbara Brabec. Barbara Brabec Productions, P.O. Box 2137, Naperville, IL 60566; \$13.45.

THE #1 HOME BUSINESS BOOK by George and Sandra Delany. Liberty Publishing Publishing Co. Inc., Dept 10-6, 50 Scott Adam Rd., Cockeysville, MD 21030; \$4.95.

THE COMPLETE WORK-AT-HOME DIRECTORY AND IDEA BOOK. E.A. Morgan Publishing Co., Dept. 10-6, P.O. Box 1375, Huntington, NY 11743; \$15. (Includes free report: "The Legalities and Tax Advantages In a Home Business.")

THE WORK-AT-HOME SOURCEBOOK by Lynie Arden. Live Oak Publications, Dept. 10-6, 6003 N. 51st Street, Suite 106,



Boulder, CO 80301; \$13.95

STAY HOME AND MIND YOUR OWN BUSINESS by Jo Frohbieter-Mueller.  
Betterway Publications, Box 219, Crozet, VA 22932; \$11.45

101 BEST BUSINESSES TO STAR by Sharon Kahn & The Philip Lief  
Group (Doubleday, 1983, \$19.85). Many of the businesses profiled  
are suitable for running at home.

#### ASSOCIATIONS

AMERICAN HOME BUSINESS ASSOCIATION, 60 Arch St., Greenwich, CT  
06830.

NATIONAL ALLIANCE OF HOME-BASED BUSINESS WOMEN, Dept. 10-6, P.O.  
Box 95, Norwood, NJ 07648; \$30 annual membership.

NATIONAL ASSOCIATION FOR THE COTTAGE INDUSTRY, Dept. 10-6 P.O.  
Box 14850, Chicago, IL 60614; \$45 membership.

#### HOW TO REORGANIZE YOUR TIME TO ACCOMMODATE A HOME-BASED BUSINESS

Almost everyone needs or wants more money coming in, and with  
this desire most would like to start some sort of extra income  
producing project. The trouble is, not many of these people seem  
able to fit "a second job" into their time schedules.

It's true that most people are busy, but extra time for some sort  
of home-based extra income producing project can almost always be  
found. It may mean giving up or changing a few of your favorite  
pastimes--such as having a couple of beers with the guys or  
watching TV--but if you score big with your extra income project,  
you will have all the time you want for doing whatever you want  
to do.

Efficient time management boils down to planning what you're  
going to do, and then doing it without backtracking. Start by  
making a list of the things you want to do tomorrow, each evening  
before you go to bed. Schedule your trips to the store or  
wherever to coincide with the other things you have to do, and  
with your trips to or from work. Organize your trips to take care  
of as many things as possible while you're out of the house.  
Take stock of the time you spend on the telephone---and eliminate  
all that isn't necessary.

Whatever chores you have to do at home, set aside a specific time  
to do them, and a specific amount of time to devote to them. For  
instances, just one hour a day devoted to yard work would  
probably make your property the envy of all your neighbors. Don't  
try to do a week's work in one big flurry. Whether it's painting  
your house, fixing leaky faucets, or mowing your lawn and  
trimming your shrubs, do a part of it, or one particular job each  
day, and you'll be amazed at your progress.

Take care of all your mail the day you receive it. Don't let  
those bills and letters pile up on you. If you're unable to pay a  
bill immediately, file it in a special place that's visible, and

note on the envelope the date you intend to pay it. Answer your letters the same day you get them.

Once you start listing and planning what to do, and then carry out your plans, you'll find plenty of "extra time" for handling virtually any kind of home-based income producing project. People in general may not like routines or schedules, but without some sort of plan as to what is supposed to be done, the world would be mired in mass confusion. Laws, ordinances and regulations are for the purpose of guiding people. We live according to an accepted plan or way of life, and the better we can organize ourselves, the more productive and happy we become.

The secret of all financially successful people is simply that they are organized and do not waste time. Think about it. Review your own activities, and then see if you can't find a couple of extra hours in each day for more constructive accomplishments.

When you begin planning, and then when you really become involved in an extra income producing endeavor, you should work it exactly as you have organized your regular day-to-day activities---on a time basis. Do what has to be done immediately. Don't try to get done in a hour something that's realistically going to take a week. Plan out on paper what you have to do--what you want to do--and when you are going to do it. Then get right on each project without procrastination.

Finally, and above all else, when you're organizing your time and your business, be sure to set aside some time for relaxation. Be sure to schedule time when you and your spouse can be together. You must not involve yourself to an extent that you exclude other people--particularly your loved ones--from your life.

Taking stock of the time you waste each day, and from there, reorganizing your activities is what it's all about. It's a matter of becoming more efficient in the use of your time. It's really easy to do, and you will not only accomplish a lot more, you will also find greater fulfillment in your life.

## HOW TO RAISE MONEY FOR STARTING A BUSINESS

The task of raising money for a business is not as difficult as most people seem to think. This is especially true when you have an idea that can make you and your backers rich. Actually, there's more money available for new business ventures than there are good business ideas.

A very important rule of the game to learn: Any time you want to raise money, your first move should be to put together a proper prospectus.

This prospectus should include a resume of your background, your education, training, experience and any other personal qualities that might be counted as an asset to your potential success. It's also a good idea to list the various loans you've had in the past, what they were for, and your history in paying them off.

You'll have to explain in detail how the money you want is going to be used. If it's for an existing business, you'll need a profit and loss record for at least the preceding six months, and a plan showing how this additional money will produce greater profits. If it's a new business, you'll have to show your proposed business plan, your marketing research and projected costs, as well as anticipated income figures, with a summary for each year, over at least a three year period.

It'll be advantageous to you to base your cost estimates high, and your income projections on minimal returns. This will enable you to "ride through" those extreme "ups and downs" inherent in any beginning business. You should also describe what makes your business unique---how it differs from your competition and the opportunities for expansion or secondary products.

This prospectus will have to state precisely what you're offering the investor in return for the use of his money. He'll want to know the percentage of interest you're willing to pay, and whether monthly, quarterly or on an annual basis. Are you offering a certain percentage of the profits? A percentage of the business? A seat on your board of directors?

An investor uses his money to make more money. He wants to make as much as he can, regardless whether it's short term or long term deal. In order to attract him, interest him, and persuade him to "put up" the money you need, you'll not only have to offer him an opportunity for big profits, but you'll have to spell it out in detail, and further, back up your claims with proof from your marketing research.

Venture investors are usually quite familiar with "high risk" proposals, yet they all want to minimize that risk as much as possible. Therefore, your prospectus should include a listing of your business and personal assets with documentation---usually copies of your tax returns for the past three years or more. Your prospective investor may not know anything about you or your business, but if he wants to know, he can pick up his telephone and know everything there is to know within 24 hours. The point here is, don't ever try to "con" a potential investor. Be honest with him. Lay all the facts on the table for him. In most cases, if you've got a good idea and you've done your homework properly, and "interested investor" will understand your position and offer more help than you dared to ask.

When you have your prospectus prepared, know how much money you want, exactly how it will be used, and how you intend to repay it, you're ready to start looking for investors.

As simple as it seems, one of the easiest ways of raising money is by advertising in a newspaper or a national publication featuring such ads. Your ad should state the amount of money you want---always ask for more money than you have room for negotiating. Your ad should also state the type of business involved ( to separate the curious from the truly interested), and the kind of return you're promising on the investment.

Take a page from the party plan merchandisers. Set up a party and invite your friends over. Explain your business plan, the profit potential, and how much you need. Give them each a copy of your

prospectus and ask that they pledge a thousand dollars as a non-participating partner in your business. Check with the current tax regulations. You may be allowed up to 25 partners in Sub Chapter S enterprises, opening the door for anyone to gather a group of friends around himself with something to offer them in return for their assistance in capitalizing his business.

You can also issue and sell up to \$300,000 worth of stock in your company without going through the Federal Trade Commission. You'll need the help of an attorney to do this, however, and of course a good tax accountant as well wouldn't hurt.

It's always a good idea to have an attorney and an accountant help you make up your business prospectus. As you explain your plan to them, and ask for their advice, casually ask them if they'd mind letting you know of, or steer your way any potential investors they might happen to meet. Do the same with your banker. Give him a copy of your prospectus and ask him if he'd look it over and offer any suggestions for improving it, and of course, let you know of any potential investors. In either case, it's always a good idea to let them know you're willing to pay a "finder's fee" if you can be directed to the right investor.

Professional people such as doctors and dentists are known to have a tendency to join occupational investment groups. The next time you talk with your doctor or dentist, give him a prospectus and explain your plan. He may want to invest on his own or perhaps set up an appointment for you to talk with the manager of his investment group. Either way, you win because when you're looking for money, it's essential that you get the word out as many potential investors as possible.

Don't overlook the possibilities of the Small Business Investment Companies in your area. Look them up in your telephone book under "Investment Services." These companies exist for the sole purpose of lending money to businesses which they feel have a good chance of making money. In many instances, they trade their help for a small interest in your company.

Many states have Business Development Commissions whose goal is to assist in the establishment and growth of new businesses. Not only do they offer favorable taxes and business expertise, most also offer money or facilities to help a new business get started. Your Chamber of Commerce is the place to check for further information of this idea.

Industrial banks are usually much more amenable to making business loans than regular banks, so be sure to check out these institutions in your area. Insurance companies are prime sources of long term business capital, but each company varies its policies regarding the type of business it will consider. Check your local agent for the name and address of the person to contact. It's also quite possible to get the directories of another company to invest in your business. Look for a company that can benefit from your product or service. Also, be sure to check at your public library for available foundation grants. These can be the final answer to all your money needs if your business is perceived to be related to the objectives and activities of the foundation.

Finally, there's the Money broker or Finder. These are the people

who take your prospectus and circulate it with various known lenders or investors. They always require an up-front or retainer fee, and there's no way they can guarantee to get you the loan or the money you want.

There are many very good money brokers, and there are some that are not so good. They all take a percentage of the gross amount that's finally procured for your needs. The important thing is to check them out fully; find out about the successful loans or investment plans they're arranged, and what kind of investor contacts they have---all of this before you put up any front money or pay any retainer fees.

There are many ways to raise money---from staging garage sales to selling stocks. Don't make the mistake of thinking that the only place you can find the money you need is through the bank or finance company.

Start thinking about the idea of inviting investors to share in your business as silent partners. Think about the idea of obtaining financing for a primary business by arranging financing for another business that will support the start-up, establishment and developing of the primary business. Consider the feasibility of merging with a company that's already organized, and with facilities that are compatible or related to your needs. Give some thought to the possibilities of getting the people supplying your production equipment to co-sign the loan you need for start-up capital.

Remember, there are thousands upon thousands of ways to obtain business start-up capital. This is truly the age of creative financing.

Disregard the stories you hear of "tight money," and start making phone calls, talking to people, and making appointments to discuss your plans with the people who have money invest. There's more money now than there's ever been for a new business investment. The problem is that most beginning "business builders" don't know what to believe or which way to turn for help. They tend to believe the stories of "tight money," and they set aside their plans for a business of their own until a time when start-up money might be easier to find.

The truth is this: Now is the time to make your move. Now is the time to act. the person with a truly viable business plan, and determination to succeed, will make use of every possible idea that can be imagined. And the ideas I've suggested here should serve as just a few of the unlimited sources of monetary help available and waiting for you!

#### LEGALITIES & TAX ADVANTAGES IN A HOME BUSINESS

Every year, several thousand people develop an interest in "going into business." Many of these people have an idea, a product or a service they hope to promote into an income producing business which they can operate from their homes.

If you are one of these people, here are some practical thoughts to consider before hanging out the "Open for Business" sign.

In areas zoned "Residential Only," your proposed business could be illegal. In many areas, zoning restrictions rule out home businesses involving the coming and going of many customers, clients or employees. Many businesses that sell or even store anything for sale on the premises also fall into this category.

Be sure to check with your local zoning office to see how the ordinances in your particular area may affect your business plans. You may need a special permit to operate your business from your home; and you may find that making small changes in your plan will put you into the position of meeting zoning standards.

Many communities grant home occupation permits for businesses involve typing, sewing, and teaching, but turn thumbs down on requests from photographers, interior decorators and home improvement businesses to be run from the home. And often, even if you are permitted to use your home for a given business, there will be restrictions that you may need to take into consideration. By all means, work with your zoning people, and save yourself time, trouble and dollars.

One of the requirements imposed might be off street parking for your customers or patrons. And, signs are generally forbidden in residential districts. If you teach, there is almost always a limit on the number of students you may have at any one time.

Obtaining zoning approval for your business, then, could be as simple as filling out an application, or it could involve a public hearing. The important points the zoning officials will consider will center around how your business will affect the neighborhood. Will it increase the traffic noticeably on your street? Will there be a substantial increase in noise? And how will your neighbors feel about this business alongside their homes?

To repeat, check into the zoning restrictions, and then check again to determine if you will need a city license. If you're selling something, you may need a vendor's license, and be required to collect sales taxes on your transactions. The sale tax requirement would result in the need for careful record keeping.

Licensing can be an involved process, and depending upon the type of business, it could even involve the inspection of your home to determine if it meets with local health and building and fire codes. Should this be the case, you will need to bring your facilities up to the local standards. Usually this will involve some simple repairs or adjustments that you can either do personally, or hire out to a handyman at a nominal cost.

Still more items to consider: Will your homeowner's insurance cover the property and liability in your new business? This must definitely be resolved, so be sure to talk it over with your insurance agent.

Tax deductions, which were once one of the beauties of engaging in a home business, are not what they once were. To be eligible

for business related deductions today, you must use that part of your home claimed EXCLUSIVELY AND REGULARLY as either the principal location of your business, or place reserved to meet patients, clients or customers.

An interesting case in point: if you use your den or a spare bedroom as the principal place of business, working there from 8:00 to 5:00 every day, but permit your children to watch TV in that room during evening hours, the IRS dictates that you cannot claim a deduction for that room as your office or place of business.

There are, however, a couple of exceptions to the "exclusive use" rule. One is the storage on inventory in your home, where your

home is the location of your trade or business, and your trade or business is the selling of products at retail or wholesale. According to the IRS, such storage space must be used on a REGULAR Basis, and be separately identifiable space.

Another exception applies to daycare services that are provided for children, the elderly, or physically or mentally handicapped. This exception applies only if the owner of the facility complies with the state laws for licensing.

To be eligible for business deductions, your business must be an activity undertaken with the intent of making profit. It's presumed you meet this requirement if your business makes a profit in any two years of a five-year period.

Once you are this far along, you can deduct business expenses such as supplies, subscriptions to professional journals, and an allowance for the business use of your car or truck. You can also claim deductions for home related business expenses such as utilities, and in some cases, even a new paint job for your home.

The IRS is going to treat the part of your home you use for business as though it were a separate piece of property. This means that you'll have to keep good records and take care not to mix business and personal matters. No specific method of record keeping is required, but your records must clearly justify and deductions you claim.

You can begin by calculating what percentage of the house is used for business, Either by number of rooms or by area in square footage. Thus, if you use one of the five rooms for your business, the business portion is 20 percent. If you run your business out of a room that's 10 by 12 feet, and the total area of your home is 1,200 square feet, the business space factor is 10 percent.

An extra computation is required if your business is a home day care center. This is one of the exempted activities in which the exclusive use rule doesn't apply. Check with your tax preparer and the IRS for an exact determination.

If you're a renter, you can deduct the part of your rent which is attributable to the business share of your house or apartment. Homeowners can take a deduction based on the depreciation of the business portion of their house.

There is a limit to the amount you can deduct. This is the amount equal to the gross income generated by the business, minus those home expenses you could deduct even if you weren't operating a business from your home. As an example, real estate taxes and mortgage interest are deductible regardless of any business activity in your home, so you must subtract from your business gross income the percentage that's allocable to the business portion of your home. You thus arrive at the maximum amount for home-related business deductions.

If you are self-employed, you claim your business deductions on SCHEDULE C, PROFIT(or LOSS) for BUSINESS OR PROFESSION. The IRS emphasizes that claiming business-at-home deductions does not automatically trigger an audit on your tax return. Even so, it is always wise to keep meticulously within the proper guidelines, and of course keep detailed records if you claim business related expenses when you are working out of your home. You should discuss this aspect of your operation with your tax preparer or a person qualified in the field of small business tax requirements.

If your business earnings aren't subject to withholding tax, and your estimated federal taxes are \$100 or more, you'll probably be filing a Declaration of Estimated Tax, Form 1040 ES. To complete this form, you will have to estimate your income for the coming year and also make a computation of the income tax and self-employed tax you will owe.

The self-employment taxes pay for Social Security coverage. If you have a salaried job covered by Social Security, the self-employment tax applies only to that amount of your home business income that, when added to your salary, reaches the current ceiling. When you file your Form 1040-ES, which is due April 15, you must make the first of four equal installment payments on your estimated tax bill.

Another good way to trim taxes is by setting up a Keogh plan or an Individual Retirement Account. With either of these, you can shelter some of your home business income from taxes by investing it for your retirement.

#### GUIDE TO FREE GOVERNMENT GRANTS

Anyone thinking about going into business for themselves, or wanting to expand an existing business should rush for the world's largest "one-step-money-stop" where FREE MONEY to start or expand a business is being held for you by the Federal Government.

It sounds absolutely incredible that people living right here in the United States of America wouldn't know that each year the world's largest source of free business help delivers:

- \* Over \$30 billion dollars in free grants and low interest loans;
- \* Over one-half trillion dollars in procurement contracts;
- \* Over \$32 billion dollars in FREE consulting and research



grants.

With an economy that remains unpredictable, and a need for even greater economic development on all fronts, the federal government is more willing than ever before to give you the money you need to own your own business and become your own boss!

In spite of the perception that people should not look to the government for help, the great government give-away programs have remained so incredibly huge if each of the approximately 8 million businesses applied for an equal share, they would each receive over \$70,000.

Most people never apply for a FREE GRANT because they somehow feel it isn't for them, there's too much red-tape, or simply don't know who to contact. The fact is however, that people from all walks of life do receive FREE GRANT MONEY and other benefits from the government, and you should also.

#### HOW TO FIND FUNDING SOURCES WORTH BILLIONS

As with all grant seeking, the key to obtaining grants is preparation and knowledge about funding sources. Preparation means identifying programs that are available, and determining if you fall within their restrictions.

The following sources will be invaluable to you in locating thousands of sources of FREE MONEY

#### FEDERAL REGISTER

This daily publication contains changes, proposed changes, and notices about rules and regulations affecting all government agencies and their programs. Federal agencies must publish the program description, eligibility requirements, and program guidelines in the Federal Register. For current subscription costs write to: Superintendent of Documents, U.S. Government Printing Office, Washington, Dc 20402.

#### CATALOG OF FEDERAL DOMESTIC ASSISTANCE

This publication lists a complete description of every program in the federal government that makes funds available to private business. Write to the U.S. Government Printing Office, Washington, DC 20402.

#### COMMERCE BUSINESS DAILY

This publication contains a daily listing of U.S. Government procurement invitations, contract awards, subcontracting leads, sales of surplus property, and foreign business opportunities. For current annual subscriptions costs write to the Superintendent of Documents, U.S. Government Printing Office, Washington, Dc 20402.

#### THE FOUNDATION CENTER

888 Seventh Avenue, New York, NY 10019, will provide you with a listing of philanthropic foundations.

FREE FEDERAL MONEY GIVEN AWAY TO ASSIST BUSINESSES  
GRANT MONEY FOR BUSINESSES IN POOR ECONOMIC AREAS

Contact the Economic Adjustment Division, Director, Economic development Administration, Herbert Hoover Bldg., Rm. H7217, Washington, DC 20230.

GRANT MONEY FOR MINORITY BUSINESS DEVELOPMENT

Grants are awarded up to \$2 million dollars to stimulate business growth. Contact the Minority Business development Agency, department of Commerce, Washington, DC 20230.

FREE MONEY TO PROVIDE ASSISTANCE TO ECONOMICALLY DISADVANTAGED BUSINESSES

Management and technical assistance is provided free to disadvantaged business. Contact the Associate Administrator for Small Business, 1441, L Street, NW, Rm. 602, Washington, DC 20416.

GRANT MONEY FOR INVESTORS IN RENTAL APARTMENT BUILDINGS WHO ARE IN FINANCIAL TROUBLE

Contact the Chief, Program Support Branch, Management Operations Division, Office of Multi-Family Housing Management, department of Housing and Development, Washington, DC 20420.

GRANT MONEY FOR WOMEN'S ENTERPRISES

Up to \$200,000 dollar grants are awarded to women in business annually. Contact the Grants Management Office, Small Business Administration, 1441 L Street, NW, Washington, DC 20416

GRANT MONEY FOR REAL ESTATE INVESTORS WHO RENT TO ELDERLY OR HANDICAPPED PEOPLE

Contact the Director, Office of Multi-Family Housing Management, Dept. of Housing and Urban Development, Washington, DC 20410.

GRANT MONEY FOR INDIAN-OWNED BUSINESSES

Contact the Office of Indian Services Director, Bureau of Indian Affairs, 18th & C Streets, NW, Rm. 4600, Washington, DC 20240.

FREE STATE GRANT MONEY

There simply isn't enough room in this report to begin listing all the FREE MONEY programs that are available from the federal and state governments. We can tell you however, the general types of programs that are available and where to begin.

As you contact different agencies for grant money, learn not to accept "no" as a final answer. There are so many new programs being offered each year that often an agency's own employees won't be aware they are offering the one you ask about. If being persistence doesn't help, get in touch with your Congressman and let them track down a program that meets your needs.

TYPES OF PROGRAMS THROUGH STATE & FEDERAL AGENCIES

## FREE MONEY

Usually through direct grants that do not have to be paid back.

## BUSINESS CONSULTING

Free management advice is offered on almost every business subject by the Department of Economic Development to minimize new business start-up management costs.

## BUSINESS SITE SELECTION

State hired specialists are available to assist new entrepreneurs select the best possible location for their new business.

## MANAGEMENT TRAINING

Most states will assign specialists to work with a new business with one-on-one management training.

## EMPLOYEE TRAINING ASSISTANCE

This program provides FREE MONEY to train employees. FREE MONEY is also available to send employees to school.

## RESEARCH & DEVELOPMENT GRANTS

FREE MONEY is available to attract high-tech related companies.

## PROGRAM CONSULTANTS

States have highly trained management consultants who will locate Federal Grant Programs to help you through the application process.

## FORMS & DOCUMENTS

State professionals will help a new business owner apply for permits, licenses, or any other legal document a business may require.

## VENTURE CAPITAL FINANCING

This method can provide FREE MONEY in the sense you wouldn't have to pay it back. You would, however, probably have to give up part of the ownership of your business in order to receive financing. Most states have their own venture capital finance firms that invest in high risk businesses.

## MINORITIES & WOMEN

FREE MONEY grants are available in most states for women or minorities who want to start a business.

## LOW INTEREST LOANS

A state may raise money through industrial revenue bonds to buy your fixed-asset equipment. The public, which invest in these bonds, do not pay taxes on the earned interest. When a low interest loan is granted, the state does not guarantee that investors will get their money back if the business fails. If a

state issues a general obligation bond, a public investment is then guaranteed. the states will also make direct loans at low interest, or even co-sign a commercial bank loan. If a state co-signs a loan for you, it may subsidize your interest and reduce an already low-interest rate lower yet.

#### SMALL BUSINESS DEVELOPMENT CENTERS

Every state has Small Business development Centers who can match you with the right FREE MONEY grant program. All development centers offer free counseling to anyone wishing to start or expand a business. Their services are varied but include; FREE seminars, workshops, business planning, feasibility studies, marketing research, management analysis, sales technique, financing, exporting, inventory control, accounting, record keeping, and grant application. Whatever your questions about FREE MONEY grants or starting a business, refer to your telephone directory under State Offices and contact your Small Business development Center.

#### GETTING FREE MONEY FROM VENTURE CAPITAL SOURCES

A venture capital company is another source for FREE MONEY in financing your business plans. But since they are willing to assume some risk by investing in your business, they also expect some equity in the business itself.

Venture capital companies invest in projects they feel will be successful and bring a return on their investment. If you are interested in asking a venture capital company to invest in your business refer to your telephone directory under Venture Capital Companies or Investment Companies, and contact those who are in the same area you want to start your project in.

#### SMALL BUSINESS INVESTMENT COMPANIES

Small business investment companies can provide your business with the capital it needs by; 1) giving you a free loan; 2) making a stock investment in your business; or 3) offering a combination of the two.

Small business investment companies are in the business of making money just like any other business. The biggest difference between them and another investor is:

- 1) They are privately managed firms who are licensed and partially financed by the federal government's Small Business Administration.
- 2) All of its transactions are regulated by the government.
- 3) Their success depends on the growth and profits of companies they own stock in. They often give money in exchange for stocks.
- 4) Their loans usually carry lower interest rates than commercial banks.
- 5) Straight loans repayments are carried over a longer period of time.

- 6) Most businesses are eligible, especially if they are 50% minority owned.

For a complete listing of the thousands of Small Business Investment Companies, visit your local library and ask for the SBIC Catalog. Study the catalog and note the companies that specialize in your area of interest. Then write them and request more information on what they have to offer.

#### WRITING A SUCCESSFUL GRANT APPLICATION

To write a successful grant application for FREE MONEY it should be well planned. You should be familiar with exactly how a particular agency prefers to have their grant proposals completed. If you have no experience in writing grant proposals, this is another area where your Small Business development centers can help.

#### WORK CLOSELY WITH THE FREE MONEY GRANTOR AGENCY

Once you decide which government agency you want FREE MONEY from, contact them and ask for a grant application. Get to know some of the grantor agency personal. Experts love to talk about their programs, so ask for advice, suggestions, and criticisms about your proposed project.

In most cases, the more the agency knows about your grant proposal, the better your chances will be of getting support from the personnel who ultimately approve your FREE MONEY request.

Often it is to the grantor's advantage to send their grant proposal summary to an agency official they have developed a contact relationship with, and ask them to review and return it to you with their comments. Be certain this approach is acceptable with your agency. You wouldn't first want a first draft mistakenly processed before it was finished.

Making a personal visit to the agency's office in your area is also important. Face to face contact will help you understand eligibility requirements, deadlines, maximum FREE MONEY amounts you can apply for, and other details you want to know about. You can also utilize an agency's library and determine through books, brochures, and conversation if there are other agencies you could apply for FREE MONEY. there is nothing that says that you can't apply for, two three, or more FREE MONEY grants at one time!

#### ESTABLISH YOUR OWN PROFESSIONAL NETWORK

Do some networking and maintain continuous contact with people who can gather information for you about FREE MONEY GRANTS. Nothing can be substituted for personal contact with the decision makers who are in charge of grant programs. Learn to use your personal influence (and theirs) to achieve your goals.

The US. Government Printing Office maintains a wealth of information that people never take advantage of! Write to them and ask for a copy of the "U.S. Government Directory" and ask for a list of books, brochures, and documents that covers your field of interest. Tell them you are especially interested in obtaining information about FREE FEDERAL MONEY that's available to private citizens.

Remember, "FREE FEDERAL MONEY" doesn't mean you have to travel to Washington, DC. It just means finding out where the agencies are within your own state and local government. The contacts you want to make may be only minutes away.

#### HOW TO GET FREE RADIO ADVERTISEMENT

The greatest expense you're going to incur in conducting a successful business is advertising.

You have to advertise. Your business cannot grow and flourish unless you advertise. Advertising is the "life-blood" of any profitable business. And regardless of where or how your advertise, it's going to cost you in some form or another.

Every successful business is built upon, and continues to thrive, primarily, on good advertising. The top companies in the world allocate millions of dollars annually to their advertising budget. of course, when starting from a garage, basement or kitchen table, you can't quite match their advertising efforts---at least not in the beginning. But there is a way you can approximate their maneuvers without actually spending their kind of money. And that's through "P.I" Advertising.

"P.I." stands for per inquiry. This kind of advertising most generally associated with broadcasting, where you pay only for the responses you get to your advertising message. It's very popular--somewhat akin to bartering--and is used by many more advertisers than most people realize. The advantages of PI Advertising are all in favor of the advertiser because with this kind of an advertising arrangement, you can pay only for the results the advertising produces.

To get in on this "free" advertising, start with a loose leaf notebook, and about 100 sheets of filler paper. Next, either visit your public library and start poring through the Broadcast Yearbook on radio stations in the U.S., or Standard Rate and Data Services Directory on Spot Radio. Both these publications will give you just about all the information you could ever want about licensed stations.

An easier way might be to call or visit one of your local radio stations, and ask to borrow (and take home with you) their current copy of either of these volumes. To purchase them outright will cost \$50 to \$75.

Once you have a copy of either of these publications, select the state or states you want to work first. It's generally best to begin in your own state and work outward from there. If you have a moneymaking manual, you might want to start first with those states reporting the most unemployment.

Use some old fashioned common sense. Who are the people most likely to be interested in your offer, and where are the largest concentrations of these people? You wouldn't attempt to sell windshield de-ice canisters in Florida, or suntan lotion in Minnesota during the winter months, would you?

At any rate, once you've got your beginning "target" area decided upon, go through the radio listings for the cities and towns in that area, and jot down in your notebook the names of general managers, the station call letters, and addresses. be sure to list the telephone numbers as well.

On the first try, list only one radio station per city. Pick out the station people most interested in your product would be listening to. This can be determined by the programming description contained within the date block about the station in the Broadcasting Yearbook or the SRDS Directory.

The first contact should be in the way of introducing yourself, and inquiring if they would consider a PI Advertising campaign. You tell the station manager that you have a product you feel will sell very well in his market, and would like to test it before going ahead with a paid advertising program. You must quickly point out that your product sells for, say \$5, and that during this test, you would allow him 50% of that for each response his station pulls for you. Explain that you handle everything for him: the writing of the commercials, all accounting and bookkeeping, plus any refunds or complaints that come in. In other words all he has to do is schedule your commercials on his log, and give them his "best shot." When the responses come in, he counts them, and forwards them on to you for fulfillment. You make out a check for payment to him, and everybody is happy.

If you've contacted him by phone, and he agrees to look over your material, tell him thank you and promise to get a complete "package" in the mail to him immediately. Then do just that. Write a short cover letter, place it on top of your "ready-to-go" PI Advertising Package, and get it in the mail to him without delay.

If you're turned down, and he is not interested in "taking on" any PI Advertising, just tell him thanks, make a notation in your notebook by his name, and go to your next call. Contacting these people by phone is by far the quickest, least expensive and most productive method of "exploring" for those stations willing to consider your PI proposal. In some cases though, circumstances will deem it to be less expensive to make this initial contact by letter or postcard.

In that case, simply address your card or letter to the person you are trying to contact. Your letter should be positive in tone, straight forward and complete. Present all the details in logical order on one page, perfectly typed on letterhead paper, and sent in a letterhead envelope. (Rubber-stamped letterheads just won't get past a first glance.) Ideally, you should include a self-addressed and stamped postcard with spaces for positive or negative check marks in answer to your questions: Will you or won't you over my material and consider a mutually profitable "Per Inquiry" advertising campaign on your station?

Once you have an agreement from your contact at the radio station that they will look over your materials and give serious consideration for a PI program, move quickly, getting your cover letter and package off by First Class mail, perhaps even Special Delivery.

What this means is at the same time you organize your "radio

station notebook," you'll also want to organize your advertising package. Have it all put together and ready to mail just as soon as you have a positive response. Don't allow time for that interest in your program to cool down.

You'll need a follow-up letter. Write one to fit all situations; have 250 copies printed, and then when you're ready to send out a package, all you'll have to do is fill in the business salutation and sign it. If you spoke of different arrangements or a specific matter was discussed in your initial contact, however, type a different letter incorporating comments or answers to the points discussed. This personal touch won't take long, and could pay dividends!

You'll also need at least to thirty-second commercials and two sixty-second commercials. You could write these up, and have 250 copies printed and organized as a part of your PI Advertising Package.

You should also have some sort of advertising contract written up, detailing everything about your program, and how everything is to be handled; how and when payment to the radio station is to be made, plus special paragraphs relative to refunds, complaints, and liabilities. All this can be very quickly written up and printed in lots of 250 or more on carbonless multi-part snap-out business forms.

Finally, you should include a self-addressed and stamped postcard the radio station can use to let you know that they are going to use your PI Advertising program, when they will start running your commercials on the air, and how often, during which time periods. Again, you simply type out the wording in the form you want to use on these "reply postcards, and have copies printed for your use in these mailings.

To review this program: Your first step is the initial contact after searching through the SRDS or Broadcasting Yearbook. Actual contact with the stations is by phone or mail. When turned down, simply say thanks, and go to the next station on the list. For those who want to know more about your proposal, you immediately get a PI Advertising Package off to them via the fastest way possible. Don't let the interest wane.

Your Advertising Package should contain the following:

1. Cover letter
2. Sample brochure, product literature
3. Thirty-second and sixty-second commercials
4. PI Advertising Contract
5. Self-addressed, stamped postcard for station acknowledgement and acceptance of your program.

Before you ask why you need an acknowledgement postcard when you have already given them a contact, remember that everything about business changes from day to day---conditions change, people get busy, and other things come up. the station manager may sign a contract with your advertising to begin the 1st of March. The contract is signed on the 1st of January, but when March 1 rolls around, he may have forgotten, been replaced, or even decided



against running your program. A lot of paper seemingly "covering all the minute details" can be very impressive to many radio station managers, and convince them that your company is a good one to do business with.

Let's say that right now you're impatient to get started with your own PI Advertising campaign. Before you "jump off the deep end," remember this: Radio station people are just as professional and dedicated as anyone else in business---even more so in some instances--so be sure you have a product or service that lends itself well to selling via radio inquiry system.

Anything can be sold, and sold easily with any method you decide upon, providing you present it from the right angle. "hello out there!

Who wants to buy a mailing list for 10 cents a thousand names?" wouldn't even be allowed on the air. However, if you have the addresses of the top 100 movie stars, and you put together an idea enabling the people to write to them direct, you might have a winner, and sell a lot of mailing lists of the stars.

At the bottom line, a lot is riding on the content of your commercial---the benefits you suggest to the listener, and how easy it is for him to enjoy those benefits. For instance, if you have a new book on how to find jobs when there aren't any jobs: You want to talk to people who are desperately searching for employment. You have to appeal to them in words that not only "perk up" their ears, but cause them to feel that whatever it is that you're offering will solve their problems. It's the product, and in writing of the advertising message about that product are going to bring in those responses.

Radio station managers are sales people, and sales people the world over will be sold on your idea if you put your selling package together properly. And if the responses come in your first offer, you have set yourself up for an entire series of successes. Success has a "ripple effect," but you have to start on that first one. We wish you success!

#### HOW TO SET UP A TAX-SAVING BOOKKEEPING SYSTEM

One of the most important, but least understood or appreciated aspects of any business is its bookkeeping or accounting system. And, because very few people know much about the reasons for a bookkeeping system, most people are frightened by the thought of the work involved in setting up such a system, and the drudgery of daily maintenance.

There's really nothing complicated to bookkeeping it's as simple as keeping a daily dairy and' or maintaining your personal checkbook. At the bottom line, it's simply a matter of recording your deposits-your incoming monies-and keeping a record of the money you spend.

So, the first thing you need to do is open a business account for your extra income business or endeavors. Generally, this is simply a matter of asking the new accounts teller at a local bank for a business account registration fee, send it in to the appropriate commissioner, and from there, open you a new business account-complete with imprinted checks.

Drop by a local stationery store and pick up a loose leaf notebook, and a supply of paper. We've always picked up a supply of index tabs at the same time--either to separate the months or the accountability sections for each item we sell.

Assuming that you want to make it as simple as possible, while at the same time keeping it as efficient as is necessary--here's what you do and how to do it.

On the first page in your notebook, write on the top line and in the middle of the page: Monday, January 1st, 1983 or whatever day you officially start your business...Then, as your orders come in, if by mail, as you open your mail--jot down starting from the left side of the page, the amount you received--dash-for what--from whom, and their address. The page might look like this:

Monday--- January 1 1983

\$	
14	Tapes
100	S.W Fee-Barton
10	Hong Kong Dir #261
10	" " #261
3	Whsle Prt Dir #49
70	Hot Line Lst--Morgan

TOTAL INCOME \$207                      EXPENSES 0

That's all there is to it, and boiling it all down, it amounts to recording what you receive and what you spend. The next entry, immediately under that first day's entry might look like this:

\$207 Deposit

11	Printer-for copies
10	Sec & riches thru R Est #302-Rogers( 75010)
3	Simplified annual M.O bkkp Sys (21104)
10	Money Magnetism-Kline (88033)
36	R.W Fee-Magnuson (10067
6	Manual on Bookselling-#291-Magnuson (10067
15	display Ad- Smith 948089)
22	Ideal Ofc Supplies-printer paper

TOTAL INCOME \$80                      Expense \$33                      Deposit \$207

And then, carry on with this recording of the money you deposit, receive and spend each day with similar entries for each day of the week--every day Monday Thru Saturday for each week. It's simple uncomplicated, and a positive record of your business activity.

Then at the end of each month, transfer this daily information to one of the low cost bookkeeping registers that your tax consultant or accountant can work from. These people won't work from your daily dairy, and will not transfer the information you record in it to a formal bookkeeping register without charging you a small fortune. it's not that big of a job, and if you do it after the close of the business on the last day of the month, it will take at the most a very few minutes. Then, of course, when

you're ready to do your taxes, you simply give your bookkeeping register to whoever is going to do your taxes, and you're home free.

The bookkeeping register you'll need can be any simple columnar notebook—we use an "Ekonomik Register, Form RL-17" available in a number of different styles and sizes from Ekonomik Systems—PO Box 11413—Tacoma, WA 98411. All you really need is some sort of notebook with a number of columns marked off, a title written at the top of each column, and a record of the money received for each day relative to the product or service each column represents. Then at the end of each month, you can simply add the totals from each column and you'll instantly know how much money you took in from each of your offers.

Beyond the date column, will be your record of expenses or money spent. Again, you should title each of the columns you'll be entering figures into, and then record your expenditures for items falling into those categories. Then at the end of each month, it's a simple matter to add the total from each column and know exactly where you stand relative to profit or loss—how much you took in compared to how much you spent.

Bookkeeping and/or accounting is a very simple and should not scare you. Just keep it simple, and up-to-date.

#### DO'S AND DON'TS WHEN WRITING CLASSIFIED ADS

DO WRITE OUT ALL DETAILS in your ad offer. Read it, edit it, and re-write it for a shorter, money saving effective ad. "Think small".

DO FOLLOW ALL THE RULES when writing your classified ad. Use these ideas.

Attention	Interest	Desire	Action
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DO USE A NAME with each classified ad including your envelopes.

DO NOT CHARGE for sales letters or circulars.

DO BE HONEST with all your classified ad claims.

DO IDENTIFY your product.

DO WRITE YOUR CLASSIFIED AD simple, clear and direct.

DO USE WORDS EVERYONE KNOWS and everyone will understand what you are saying.

DO USE A WORD that will benefit a reader.

DO NOT OVERPRICE your product.

DO ADVERTISE FREQUENTLY. Constant exposure creates a familiar offer with better response.

DO OFFER A MONEY BACK GUARANTEE in your classified ad, salesletter or circular if possible. An excellent sales

technique!

DO TEST YOUR AD in 2 or 3 smaller, low cost publications.  
Record results. Code each ad.

DO READ PUBLICATIONS that relate to your product. Write for ad rates, paid circulation, discounts and closing dates. Keep records.

DO HAVE ALL YOUR LITERATURE AND PRODUCTS ready for mailing when your ad appears in the publication of your choice. Do not delay in responding.

DO USE THE COPYCAT METHOD. Do what other successful advertisers are doing. Only with a slight twist, idea or offer.

DO RUN SEVERAL ADS worded differently. Keep records of results.

DON'T OVER ADVERTISE. It can be expensive. If you want to, do it gradually.

DON'T PRETEND YOU KNOW ALL THE ANSWERS. Because you don't. Take time to find out what you need to know.

DON'T TRUST YOUR MEMORY. A thought will leave you as quickly as it came. Always write down a good idea. NOW!

DON'T PLACE YOUR AD in the wrong classification.

DON'T WASTE YOUR MONEY on ad words to amuse or entertain, but use words to persuade, inform and sell your product.

DO USE A SHORT BUSINESS NAME. Make it easy to pronounce and remember.

DON'T FORGET THE M.E.D.I.C.S. Motivation. Enthusiasm. Desire. Image. Creativity. Success!

DON'T GIVE UP. If your ad doesn't pull after a fair exposure, try re-writing it. One or two different words may do the trick.

DON'T SPEND THE PROFITS. Re-invest the money in more continuous advertising.

DON'T FORGET, an ad that offers "FREE DETAILS" means writing a sales letter or circular.

#### AVOID HIGH TYPESETTING COSTS AND MISTAKES

Getting your price lists, brochures, catalogs or newsletters typeset does not necessarily have to be a costly procedure. Keep in mind that the main cost in typesetting is the time involved in setting type. By minimizing the time needed to create a typeset piece you can effectively keep your cost down. The following suggestions can help reduce your typesetting expense.

Know what you want the FIRST time around. Have a picture in your mind. Trial and error can be costly. Don't have a

typesetter set it one way, then decide a different format would look better.

Reduce and eliminate author's corrections by thorough proofing and re-proofing.

Avoid minimum charges by combining small jobs and having them set at the same time.

Try to use one family of type to save time and money by avoiding font changes. The consistent look is better.

Give explicit instructions on marking up copy: type styles, column widths/margins.

With a large job, such as a brochure or annual report, request a style setting proof sheet to get approvals before the entire job is done.

Avoid super rush jobs, especially if you don't really need them.

Avoid lengthy corrections on the phone. You might end up paying for corrections later that could have been avoided if you had done your editing on proof sheets.

Get the layout finished and approved before having type set... the same goes for copy, of course.

Avoid the use of "run-arounds" (reducing the width of the copy to make room for a photo in the column, for example). If you do use them, use simple shapes, boxes, squares.

Avoid the use of curved or angular type. Type reading left to right on a page (for example, this report) is faster and less expensive to set than copy that is set in a curve or running sideways on the page.

The use of unjustified text and captions is less expensive than justified because it sets quicker, costing less time.

Don't depend on the typesetter to read your mind. Be specific.

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### ADVERTISING MISTAKES: HOW TO AVOID THEM

Advertising isn't hard to do. You prepare an advertisement or write a classified ad to sell your product or generate interest to send people more information. But the way most people make mistakes is either by their inability to write effective ad copy and by sending it to be published in the wrong publication. Here are some pointers to follow:

#### Writing Effective Copy

Never try to sell anything costing more than \$5 in a small display ad or a

classified ad. First of all, you don't have enough room to tell people everything they need to know to entice them to order.

Instead, you need to employ the "Two-Step" method of advertising.

Request

the reader to send you \$1 or 4 first-class postage stamps for more information. When they respond, you will send them a brochure, flyer, order form and cover letter so they can place an order for the real product.

Now that pricing is out of the way lets talk about writing your ad copy. The best way to learn how is to read the ads other people have written. Don't copy them word-for-word, but use them as a guideline to write your own ads. Once you get the hang of it, you'll be writing effective ad copy just as well as the pros.

Here's an example of an ad you could use to sell automobile wax: Free information on the best wax available on the market. If you care about the lasting beauty of your vehicle, send \$1 for complete details to (your name and address.)

Advertising in the Right Publication

Even if you make and sell the best candy in the world, you probably couldn't sell very much of it to people who are diabetics. The same goes for selling race car parts to women or dentures to teenagers.

Although this may sound a little silly and you think it is only common sense to know this -- people will often overlook this fact when choosing the publication they will be advertising in. Instead, they will look for the lowest price for the amount of circulation they receive. Unfortunately, this does not work out.

Even though you need to look for good deals that make it easy on your pocketbook, you will be throwing money away if you don't pre-qualify the publication you choose.

One way of pre-qualifying the publication is to send for a sample copy. Most publishers will send them to you free of charge for the asking. If you don't know of any mail order publications, just write to Glenn Bridgeman, PO Box 10150, Terra Bella CA 93270 or William Lee, Rt 1, Box 10790, Madisonville TN 37354 and ask them to send you some. (Be sure to enclose \$1 or 4 first-class postage stamps in with your request to offset postage costs.) If you tell them you are new to mail order and are interested in publications to advertise in, you certainly will find the \$1 you spent is well worth the effort because both of these publishers are very reputable, honest and helpful.

Study the publication to see what other people are advertising and how they are advertising it. Contact some of the people who sell items similar to your own with the hope of networking with them. You would be surprised

how  
much free publicity you can get just from corresponding, calling and  
networking with others.

Once you locate a publication you want to advertise in, give it a try  
for 3  
months. If you don't get any response or only a few orders, try another  
publication. There are millions of them and eventually you will hit the  
right target market that will be interested in what you have to sell.

#### Don't Stop With One Publication

Just because you locate the target market of people who are interested  
in  
purchasing your product there is no reason you can't advertise in more  
than  
one publication. In fact -- if you don't, your ad will become stale. If  
the  
same people continue to see your ad every month they will probably get  
tired of looking at it. Besides, if they wanted the product they would  
have  
ordered it by now. Don't tire them out! Alternate different size ads and  
get rid of ones that don't work well.

Leave your ad running as long as it brings in orders for you but also  
advertise in 5, 10, 20 or 50 other publications also to generate a  
steady  
stream of orders and to reach more people.

#### Key Your Ads

Many beginners in mail order never key their ads so they know what  
publication people saw their ads in. In fact, I personally never did  
this  
myself and ended up losing a lot of money. So please don't make the same  
mistake I did.

Keying your ads means that you place a code of some sort in your address  
so  
that when people write and order something from you, you immediately  
will  
know where they saw your ad. Keep a record of every name and address of  
the  
publisher you send an advertisement to. Record the date you sent the ad  
and  
the date you received a checking copy, proving that your ad appeared.  
Also  
record the "code" you used so you can immediately identify where it came  
from.

An example of coding your ad would be: If your address is "123 Anytown  
St,"  
it could become "123 Anytown St, Suite A" for one publication and "Suite  
B"  
for another. The postman will still deliver your mail to "123 Anytown  
St."

Of course, if you live in an apartment complex and there are apartment  
numbers you could turn "111 Johnson, Apt A" into "111 Johnson, Apt A-1"  
for  
one publication and "Apt A-2" for another.

Post office box addresses are also simple. You could easily turn "PO Box 585" into "PO Box 585, Dept A-1" for one publication and "Dept A-2" for another.

People will sometimes even change their name on the ad for keying purposes.

You might see the name "Harriet's Recipe Book" instead of Harriet Ranger.

Harriet might also use "Harriet's Cookbook" or even "Harriet's Solution to

Stress" on her ads relating to these products. Use your own imagination and

pretty soon, keying your ads will be a normal part of your life.

Be sure and keep track (on your Record Sheet) of how many responses you receive from each publication. After 3 months, look over your Record Sheet

and get rid of the publications that didn't do well. You'll go broke if you

spend \$10 per month advertising a 2-inch ad if you only receive \$1 back in

orders. After awhile you'll be able to see where it pays you to advertise

your particular product and then you can send in larger ads to those publications. Never stop using this method and you'll never stop getting orders in your mailbox.

It's a win-win situation for everybody!

Tabloids -vs- Adsheets

Another question about advertising that many people have is whether its better to advertise in tabloids or adsheets. Many people will sell you information on the best day to mail and the best time of the year to advertise. They think they have it down to a science and will convince you

of their methods.

However, there is NO set rules that can be employed by everyone. That's because there are a wide variety of ways to approach various products.

If

you sell travel services and read a report that told you not to advertise

during the summer months, you'd go broke. The summer is the travel industry's biggest money-making season!

Don't get hung up on specific statistics made by people who claim to be expert researchers. There is no way to determine what is best for you than

to try it yourself and see what works. You are the person in control of your business and you are where the buck stops. Take advantage of your authority and try every angle you can think of until you determine what's

best for your company's product and/or service.

Tabloids are a fantastic advertising vehicle and adsheets are too.

Sometimes people feel a small 1" camera-ready ad gets lost in a tabloid filled with 100's of them. This may be true in some circumstances and not

true in others. Do you look at 1" ads in tabloids? Of course you do. You



scan the pages and your eye is always directed to one or two on the page that catches your eye. Ask yourself "why" they caught your eye. Was it because the ad was placed in a specific area on the page? Was it because of the headline or the word "free"?

There are a million different ways to market and sell your particular product or service. What might work for John may not work for Joe. You have to find your own way.

In addition, classifieds sometimes work well in tabloids and adsheets and sometimes they don't, Look in the back of the Globe or Enquirer. Don't they have page after page of classified ads? If nobody was reading them and responding to them, the advertisers wouldn't be submitting advertising to the Globe or Enquirer for them. So evidently, people DO read classified ads -- even if there are 100's of them. Test the waters and do what works the best for you.

#### UNLIMITED OPPORTUNITIES GUIDE

The 100 Sources in this report have been hand-picked for low-cost buying and profit making. At the time of printing all addresses were correct and all offers were as stated. The publisher can not be held responsible for any withdrawn offers or changes in address in any of the firms. UNLIMITED OPPORTUNITIES GUIDE was published as information, only. It is suggested that when writing to any of the firms, that you use business stationery and typewrite all correspondence for best results.

1. AMITY HALLMARK, LTD., P.O. Box 1148, Linden Hill Sta., Flushing, NY 11354 offers 1000 8 1/2 x 11 circulars printed and postpaid for only \$4.95. Write.
2. BUSINESS ENVELOPE MANUFACTURERS, INC., Pearl River, NY 10965 will print #10 envelopes for as low as \$3.60 per 1000 and Return Address envelopes for as low as \$2.60 per 1000. Write for free list.
3. Get Baby Supply Catalog for 25¢ from VOLZ ENTERPRISES, 602 Ferris St., Ypsilanti, MI 48197. Dealership available. Firm will drop-ship.
4. Write UNITY BUYING SERVICE, INC., Mt. Vernon, NY 10551 for information on buying Name Brands at factory prices, plus 5% handling charge.
5. HI-TEST PREMIER PRODUCTS, INC., 361 Broadway, New York, NY

10006 offers

quality low cost imported tools. Write.

6. AFRICAN WOODCARVINGS, INC., 260 5th Ave., New York, NY 10011  
offers low priced  
African woodcarvings. Write.

7. MASHBURN'S, P.O. Box 118-W, Enka, NC 28728 will pay up to \$1.00  
each for cards  
and letters postmarked before 1915. Send stamp for list.

8. GUTMANN CUTLERY CO., INC., 3956 Broadway, New York, NY 10006  
offers imported  
rifle scopes at lowest importer prices.

9. ARCO PUBLISHING CO., 480 Lexington Ave, New York, NY 10017  
offers self-help  
books at lowest wholesale cost. Write.

10. Write STRADOLIN CORP., 561 6th Ave., New York, NY 10011 for  
their wholesale  
catalog on musical instruments.

11. MASHBURN COINS, Enka, NC 28728 will buy old coins at highest  
dealer prices for  
buying. List dates, mint and condition of your coins. Enclose stamp  
for highest offer by return  
mail.

12. SUMBERG ENTERPRISES, Dept. "Coins", 331 Eastern Ave., Maiden, MA  
02148 offers  
wholesale coin supplies and books. Write.

13. Join RECORD CLUB OF AMERICA, York, PA 17045. Send \$5.00 for  
life membership.  
Receive catalog 25,000 records.

14. SUPERINTENDENT OF DOCUMENTS, Govt. Printing Office,  
Wash\_ing\_ton, DC offers  
a free list of directories and books they publish.

15. LAKESIDE IMPORTS CO., 6800 N. Campbell, Chicago, IL 60645  
offers free wholesale  
catalog of over 100 fast sellers.

16. Write WARSHAWSKY & CO., 1900-24 S. State St., Chicago, IL 60616  
for their  
wholesale automotive parts and accessories catalog.

17. Get free report on "Coin Investing" from GEORGE W. HALINGS, P.O.  
Box 265,  
Carlsbad, CA 92008.

18. Send \$1.00 to COIN WORLD, P.O. Box 150, Sidney, OH 45365 for  
copy of "Basic  
Knowledge for the Coin Collector".

19. NATIONAL COUNCIL OF MAILING LIST BROKERS, 55 W. 42nd St., New  
York, NY  
10046 offers a free list reliable Mailing List Brokers.

20. Write DIVISION OF PRINTING SERVICE, Dept. of Commerce, Washington, DC for free booklet "Mail Order Business."
21. TRAPKUS ART STUDIO, 5120 11th Ave., Moline, IL 61265 is the best and lowest cost producer of Art Work for your product or service.
22. SHELDON CORD PRODUCTS, 3320 W. Lawrence Ave., Chicago, IL 60625 offers a catalog of products below wholesale. Send \$1.00 for catalog.
23. JACOBI INDUSTRIES, 1715 E. Mercer, Seattle, WA 98102 offers free wholesale catalog of Jewelry, Watches and gifts.
24. PENNY LABEL CO., 9-15 Murray St., New York, NY 10007 offers lowest prices on gummed perforated addressing labels and other labels.
25. GUILD MAIL ORDER HOUSE, 103 E. Broadway, New York, NY 10002 offers used Factory cleaned sport coats and suits for \$5.75 and \$9.95. Free catalog.
26. COPEN PRESS, 100 Berriman St., Brooklyn, NY 11208 will print 8-page catalogs or booklets for as low as 1.5 cents each. Write for price list.
27. GUTMANN CUTLERY CO., INC., 3956 Broadway, New York, NY 10006 offers imported knives, fishing and hunting equipment as importer prices.
28. MASHBURN'S IMPORTICO, Enka, NC 28728. For details and sample circulars of their directories, folios and manuals. Circulars are supplied at cost. Will drop-ship or you may stock at profits at 500%.
29. ACE TOY, 468 W. Broadway, New York, NY 10012. Wholesale toys. Ask for catalog.
30. BUSINESS ENVELOPES MANUFACTURERS, INC., Pearl River, NY 10965 offers printed 2-color letterheads for \$8.80 per 1000. Write.
31. Write CUCKOO CLOCK MFG. CO., INC., 40 W. 25th St., New York, NY 10001 for catalog and prices of Cuckoo, wall, alarm and mantle clocks.
32. Get 1000 business cards printed for \$3.00 or 100 statements for \$4.75 from NEW YORK BUSINESS CARD CO., 1272 St. Lawrence Ave., New York, NY 10472. Write.
33. JJK-COPY ART, 165 W. 46th St., New York, NY 10036 will reproduce 100 8" x 10" glossy photos for only \$12.45.
34. OLD COLONIAL ANDERSON MILLS, Dalton, GA 30720 offers free catalog of irregular bedspreads for as low as \$1.60 each. Write.

35. MUSIC, P.O. Box 3305, Beverly Hills, CA 90213 offers new 45 RPM records for 46¢ each and LP records for 40¢ each. Write.
36. HARLOW GEOGRAPHICS, Box 23, Kingston, MA 02360 offers old National Geographics magazines for as low as 20 cents each. Write for price lists.
37. Get free catalog of new and used printing machinery, supplies and equipment from TURNBAUGH SERVICES, Mechanicsburg, PA 17055.
38. Get Electric IBM typewriters for as low as \$89.50 and others at \$19.95 from QUALITY OFFICE EQUIPMENT CORP., 166 W. 23rd St., New York, NY 10011. Write.
39. Send \$1.00 for sample catalog and dealer set-up on "Adult Books" to WORLD WIDE BOOK SERVICE, 251 Third Ave., New York, NY 10010
40. WM. STROH, INC., 568-570 54th St., West New York, NJ 07083 will pay up to \$25.00 per 1000 for your inquiry letters.
41. RUGBY PRESS, 3321 Ave. N, Brooklyn, NY 11234 offers personalized memo pads (1000 sheets) for only \$4.50 postpaid.
42. MUSIC ENTERPRISES, P.O. Box 55088, Sherman Oaks, CA 91413 offers factory-fresh 8-track tapes for as low as 80¢ each, postpaid. Write.
43. FEDERAL, 6652 N. Western, Chicago, IL 60645 offers 1-dozen Party records for only \$18.00. Ask for free catalog.
44. Get catalog of Mexican leather purses, wallets and vests with over 200% profit with 25¢ to HANDLEATHER CO., Box 282, Nestor, CA 92053.
45. LIBERTY BOOK CO., 210 5th Ave., New York, NY 10010 offers adult paperback books at wholesale prices. Write.
46. Get free Newsletter, "Selling Books By Mail" from PUBLISHERS EXCHANGE, P.O. Box 1355, Sioux Falls, SD 57101.
47. DAVIS BOOK WHOLESALERS, INC. 115 E. 23rd St., New York, NY 10010 offers surplus and closeout books at wholesale prices. Write.
48. CHAMPION PRINTING CO., Box 148, Ross, OH 45061 will drop-ship printing orders to your customers.
49. OTTO GRUENHUT CO., 377 Broadway, New York, NY 10013 offers pens and pencils at lowest wholesale prices.

50. MAILERS EQUIPMENT CO., INC., 40 W. 15th St., New York, NY 10011  
offers factory  
rebuild Address machines and Mailing equipment. Write on letterhead.
51. JEROS TACKLE CO., INC., 111 16th St., Brooklyn, NY offers all  
kinds of fishing tackle  
at importers prices. Write.
52. MAILERS EQUIPMENT CO., INC., 40 W. 15th St., New York, NY 10011  
offers rebuilt  
Pitney Bowes postage meters. Write.
53. ADDRESSING MACHINE & EQUIPMENT CO., 383 Lafayette, New York, NY  
10003  
offers rebuilt offset printing presses at lowest prices. Write.
54. Send \$1.00 to WORLD TRADE INQUIRIES, Hillyard, WA 99207 for  
copy of Japan-Hong  
Kong Directory.
55. MEXICAN IMPORTING CO., North Pacific, Albany, OR 97321 offers  
Mexican feather-  
bird pictures at jobber prices. Send 25¢ for sample pictures and  
prices.
56. SOUTH BAY ENTERPRISES, 65 "I" St. Chula Vista, CA 92010 offers  
free wholesale  
catalog of Mexican hand-tooled purses.
57. BOOK SUPPLY CO., P.O. Box 98, Pacific Palisades, CA 90272  
offers "girlie" magazines  
that you can whoesale to retail stores. Sent \$1.00 for samples and  
prices.
58. SOUTHERN WATCHES, 5 South Wabash, Chicago, IL 60603 offers free  
list of pocket  
and wrist watches starting at \$3.00 each. Write.
59. T. MASON SALES CO., 957 N. Lewis Ave., Waukegan, IL 60085  
offers check writers  
and money-making details for only \$5.00 each for first sample.
60. Send 35 cents for BREWSTER SALES, 808 Washington, St. Louis, MO  
63101 for 100 2-  
color name and address labels.
61. Send 12 cents to HOME BUSINESS DIGEST, P.O. Box 839, Long Beach,  
NY for a  
sample copy of their publication.
62. METRO, 60 South St., Boston, MA 02111 offers free closeout  
lists.
63. MASHBURN'S, P.O. Box 188-W, Enka, NC 28728 will pay up to \$.50  
each for old  
baseball cards. Send stamped, self-addressed envelope for list.
64. Write COLECTORS NEWS, Box 156, Grundy Center, IA 50638 for a  
free copy of their  
publication.

65. Write STEPHENS PRODUCTS CO., 2160 Broadway, New York, NY 10023 for free wholesale catalog of costume and personalized jewelry.
66. ITRACO WATCH CO., Zurich I, Switzerland will drop ship low-cost and premium watches to your customer.
67. A.A. ARCHBALD, P.O. Box 57985, Los Angeles, CA 90057 offers many books of printed cuts, type fonts, borders, etc., for offset printing paste-ups.
68. Send \$.25 to HOME BUSINESS DIGEST, P.O. Box 839, Long Beach, NY 11561 for sample catalog and instructions on how to make \$100 weekly mailing catalogs.
69. Write for free copy of "Commerce in Germany" to U.S. CHAMBER OF COMMERCE IN GERMANY, Taunusantage 21, Frankfurt A.M., West Germany.
70. MADE IN EUROPE, 21-29 Unterlindau, 6 Frankfurt 1, West Germany want established U.S. dollars to sell subscriptions to their magazine.
71. JAKLA GEM, Box 3066, Seminole, FL 33542 offers diamond-like rings as low as \$5.00 each.
72. SELECTIVE BOOKS, INC., 159 Banker St., Brooklyn, NY 11222 offers 100 adult novels as low as \$.18 each.
73. Get copy of "How to Become Rich" from SUCCESS INTERNATIONAL, Box 2447, Livonia, MI 48151.
74. MASHBURN'S, Box 118-W, Enka, NC 28728 buys most all old pocket knives. Write giving name, tracing and full description of knives. Stamped envelope will get our best offer.
75. Send \$1.00 to H.L. RANDALL, 2160 Nokomis, St. Paul, MN 55119 for 16-page buying list of old books.
76. Write "AFRICAN-ASIAN MARKETS", P.O. Box 325, Bombay 1, India for their free Trade Journal. Write on your letterhead.
77. Write HONG KONG ENTERPRISE, Ocean Terminal, 2nd Deck, Lantoo Gallery, Kowloon, Hong Kong for copy of their Trade Journal. Write on your letterhead.
78. Send \$.25 to HARPENG LIANG, P.O. Box 1765, Bangkok, Thailand for information on products they will drop ship.
79. MULTICRAFT, P.O. Box 4119, Rotterdam, Netherlands offers free

drop ship catalog.

80. MERRILL & CO., 7 Bennett St., Battle Creek, MI 49017 offers 1000 First Quality red border shipping labels for \$6.50. Write.

81. MID-AMERICA BOOK CO., Main Street, Leon, IA 50144 offers free catalog of hundreds of books on antiques.

82. ASIAN IMPORTS, 6902 20th Avenue, Hyattsville, MD 20783 offers free drop ship catalog of Asian products.

83. ATLAS ASSOCIATES, 5 Matter Strasse, 85 Nuernberg/Eiback, Germany drop ships imitation 400-day clock. Write.

84. RUDI KLENZIER, 7745 Schonach, Germany offers catalog of hand carved souvenirs and clocks.

85. Write EARL P.L. APPELBAUM, INC., 1420 Walnut, Philadelphia, PA 19102 for free periodical catalogs of Stamp Mail-Bid auctions.

86. HONG KONG TRADE DEVELOPMENT COUNCIL, Ocean Terminal, Kowloon, Hong Kong will give free information on firms and products from Hong Kong.

87. IRISH EXPORT BOARD, Lansdowne House, Ballsbridge, Dublin 4, Ireland will give information on firms and products of Ireland.

88. Write TAIWAN HANDICRAFT PROMOTION CENTER, Chung Shan Rd., S., Taipei, Taiwan, Formosa for free copy of "China Handicraft Industry" monthly.

89. Get copy of "Oriental America" form EAST ASIA PUBLISHING CO., 298, 3-chrome, Harajuku, Shibuya-ku, Tokyo, Japan.

90. Get copy of "Japan Trade Monthly" from JAPAN TRADE MONTHLY, Dentsu Bldg., Tokyo, Japan.

91. Get directory of 92 Mailing List Houses for \$.35 form THE SMALL BUSINESS ADMINISTRATION, Washington, DC 20416.

92. Get free 42-page catalog of mailing lists from HAMS PUBLICATIONS, 224 Market St., Newark, NJ 07102.

93. Get free 120-page catalog of 120,000 mailing lists form FRITZ S. HOGHEIMER, INC., 29 E. 22nd St., New York, NY 10010.

94. NECTAR LABEL CO., 34 Hubert St., New York, NY 10013 offers low-cost high quality shipping labels. Write for price list.

95. Get free book "Selling by Mail Order" form SMALL BUSINESS ADMINISTRATION, Washington, DC 20416.
96. Get brochure of pornographic films from EKIBA A/S P.O. Box 11, DK-2660, Broenby Strand, Denmark. Send \$1.00 for Airmail and handling.
97. Write IMPERIAL MERCHANDISE CO., 22 W. 23rd St., New York, NY 10010 for catalog of imported products.
98. Write COURT KNITWEAR, LTD., Court Devenish, Athlone, Ireland for information and prices on their pure-wool hand-knitted sweaters. Firm will drop ship.
99. Send \$1.00 for MASHBURN'S IMPORTICO, Box 118-W, Enka, NC 28728 for copy of "FOREIGN PUBLICATIONS DIRECTORY".
100. Send \$1.00 to RUTWARD PUBLICATIONS, Box 735-M, Norwalk, CT 06852 for copy of "Profits in Mail Order."

The names and addresses of all firms listed in this directory were correct at the time of publication. It is suggested that you write to all sources on your business letterhead and that you type all corrections when writing to foreign firms.

This directory is printed as information only. We will not be held responsible for any withdrawal of offers or any transactions made with the firms.

#### Directory of United States Chambers of Commerce

##### ALABAMA

Business Council of Alabama  
E. Clark Richardson, President  
468 South Perry Street  
P.O. Box 76  
Montgomery, AL 36101-0076  
Phone (205) 834-6000  
Fax (205) 262-7371

##### ALASKA

Alaska State Chamber of Commerce  
Sheri Schlotfeldt, President  
217 2nd Street, #201  
Juneau, AK 99801  
Phone (907) 586-2323  
Fax (907) 463-5515

##### ARIZONA

Arizona Chamber of Commerce  
Wayne C. Anderson, President/CEO  
1221 East Osborn Road, #100  
Phoenix, AZ 85014



Phone (602) 248-9172  
Fax (602) 265-1262

#### ARKANSAS

Arkansas State Chamber of Commerce  
Ron Russell, Executive Vice President  
410 South Cross  
P.O. Box 3645  
Little Rock, AR 72203-3645  
Phone (501) 374-9225  
Fax (501) 372-2722

#### CALIFORNIA

California State Chamber of Commerce  
Kirk West, President  
1201 K Street, 12th Floor  
P.O. Box 1736  
Sacramento, CA 95812-1736  
Phone (916) 444-6670  
Fax (916) 444-6685

#### COLORADO

Colorado Association of Commerce & Industry  
George S. Dibble, Jr., President/CEO  
1776 Lincoln Street, #1200  
Denver, CO 80203-1029  
Phone (303) 831-7411  
Fax (303) 860-1439

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#### CONNECTICUT

Connecticut Business & Industry Association  
Kenneth O. Decko, President  
370 Asylum Street  
Hartford, CT 06103  
Phone (203) 244-1900  
Fax (203) 278-8562

#### DELAWARE

Delaware State Chamber of Commerce  
John M. Burris, President  
1201 North Orange Street  
P.O. Box 671  
Wilmington, DE 19899  
Phone (302) 655-7221  
Fax (302) 654-0691

#### DISTRICT OF COLUMBIA

District of Columbia Chamber of Commerce  
Kwasi Holman, Executive Vice President  
1301 Pennsylvania Avenue NW #309  
Washington, DC 20004  
Phone (202) 347-7201

#### FLORIDA

Florida Chamber of Commerce  
Frank M. Ryll, Jr., President  
136 South Bronough Street  
P.O. Box 11309

Tallahassee, FL 32302-3309  
Phone (904) 425-1200  
Fax (904) 425-1260

GEORGIA  
Georgia Chamber of Commerce  
233 Peachtree Street, #200  
Atlanta, GA 30303-1504  
Phone (404) 223-2264  
Fax (404) 223-2290

HAWAII  
Chamber of Commerce of Hawaii  
Paul R. Lister, President  
1132 Bishop Street  
Honolulu, HI 96813  
Phone (808) 545-4300  
Fax (808) 545-4309

IDAHO (No State Chamber)  
Boise Area Chamber of Commerce  
Jay M. Clemens, President/CEO  
300 N. 6th Street  
P.O. Box 2368

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Boise, ID 83701

ILLINOIS  
Illinois State Chamber of Commerce  
Sally A. Jackson, President/CEO  
311 South Wacker Drive, #1500  
Chicago, IL 60606-6619  
Phone (312) 983-7100  
Fax (312) 983-7101

INDIANA  
Indiana Chamber of Commerce  
Christopher Lamothe, President/CEO  
One North Capitol Avenue, #200  
Indianapolis, IN 46204-2248  
Phone (317) 264-3110  
Fax (317) 264-6855

IOWA  
Iowa Department of Economic Development  
Anita Walker, Communications Manager  
200 East Grand  
Des Moines, IA 50309  
Phone (515) 242-4700  
Fax (515) 242-4749

KANSAS  
Kansas Chamber of Commerce & Industry  
Ed Bruske, President/CEO  
835 SW Topeka Blvd  
Topeka, KS 66612-1671  
Phone (913) 357-6321  
Fax (913) 357-4732

KENTUKY

Kentuky Chamber of Commerce  
Ken Oilschlager, President  
464 Chenault Road  
P.O. Box 817  
Frankfort, KY 40602  
Phone (502) 695-4700  
Fax (502) 695-6824

LOUISIANA

Louisiana Association of Business & Industry  
Daniel Juneau, President  
3113 Valley Creek Drive  
P.O. Box 80258  
Baton Rouge, LA 70898-0258  
Phone (504) 928-5388  
Fax (504) 929-6054

MAINE

Maine Chamber of Commerce & Industry

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John S. Dexter, Jr., President  
126 Sewall Street  
Augusta, ME 04330  
Phone (207) 623-4568  
Fax (207) 622-7723

MARYLAND

Maryland Chamber of Commerce  
Champe C. McCulloch, President  
60 West Street, #100  
Annapolis, MD 21401-2458  
Phone (410) 261-2858  
Fax (410) 269-5247

MASSACHUSETTS

(No State Chamber)  
Greater Boston Chamber of Commerce  
William B. Coughlin, President  
One Beacon Street, 4th Floor  
Boston, MA 02108-3114  
Phone (617) 227-4500  
Fax (617) 227-7505

MICHIGAN

Michigan Chamber of Commerce  
James Barrett, President  
600 South Walnut Street  
Lansing, MI 48933  
Phone (517) 371-2100  
Fax (517) 371-7224

MINNESOTA

Minnesota State Chamber of Commerce  
David Olson, President  
30 East 7th Street, #1700  
Saint Paul, MN 55101  
Phone (612) 292-4650  
(800) 422-4593  
Fax (612) 292-4656

MISSISSIPPI

Mississippi Economic Council  
Bob W. Pittman, President  
P.O. Box 23276  
Jackson, MI 39225-3276  
Phone (601) 969-0022  
Fax (601) 353-0247

MISSOURI

Missouri State Chamber of Commerce  
Mr. Jo Frappier, President  
428 East Capitol Avenue  
P.O. Box 149  
Jefferson City, MO 65102

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Phone (312) 634-3511  
Fax (312) 634-8855

MONTANA

Montana Chamber of Commerce  
David Owen, President  
2030 11th Avenue  
P.O. Box 1730  
Helena, MT 59601  
Phone (406) 442-2405  
Fax (406) 442-2409

NEBRASKA

Nebraska Chamber of Commerce & Industry  
Jack Swartz CCE CAE, President  
P.O. Box 95128  
Lincoln, NE 68509  
Phone (402) 474-4422  
Fax (402) 474-2510

NEVADA

Nevada State Chamber of Commerce  
David Howard, Legislative Affairs Director  
P.O. Box 3499  
Reno, NV 89505  
Phone (702) 686-3030  
Fax (702) 329-3499

NEW HAMPSHIRE

Business & Industry Association of New Hampshire  
John D. Crosier, President  
122 North Main  
Concord, NH 03301  
Phone (603) 224-5388  
Fax (603) 224-2872

NEW JERSEY

New Jersey State Chamber of Commerce  
William F. Faherty, Jr., President  
50 West State Street, #1110  
Trenton, NJ 08608  
Phone (609) 989-7888  
Fax (609) 989-9696

NEW MEXICO

Association of Commerce & Industry of New Mexico  
Jerry Walker, President  
2309 Renard Place SE, #402  
Albuquerque, NM 87106-4259  
Phone (505) 842-0644  
Fax (505) 842-0734

NEW YORK

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(No State Chamber)  
New York Chamber of Commerce & Industry  
Barry Sullivan, President/CEO  
One Battery Park Plaza, 5th Floor  
New York City, NY 10004-1405  
Phone (212) 493-7500  
Fax (212) 344-3344

NORTH CAROLINA

North Carolina Association of Chamber of Commerce Executives  
Cynthia Barnett, Executive Director  
P.O. Box 1001  
Raleigh, NC 27602  
Phone (919) 828-0758  
Fax (919) 821-4992

NORTH DAKOTA

Greater North Dakota Association  
Dale O. Anderson, President  
2000 Schafer Street  
P.O. Box 2639  
Bismarck, ND 58501  
Phone (701) 222-0929  
Fax (701) 222-1611

OHIO

Ohio Chamber of Commerce  
I. John Reimers, President  
35 East Gay Street, 2nd Floor  
Columbus, OH 43215-3181  
Phone (614) 228-4201  
Fax (614) 228-6403

OKLAHOMA

Oklahoma State Chamber of Commerce & Industry  
Richard P. Rush CCE, President/CEO  
4020 N. Lincoln Blvd  
Oklahoma City, OK 73105  
Phone (405) 424-4003  
Fax (405) 424-3137

OREGON

(No State Chamber)  
Salem Area Chamber of Commerce  
John Irelan, Executive Vice President  
220 Cottage Street NE  
Salem, OR 97301  
Phone (503) 581-1466  
Fax (503) 581-0972

PENNSYLVANIA  
Pennsylvania Chamber of Business & Industry  
Floyd W. Warner, President  
417 Walnut Street

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Harrisburg, PA 17101  
Phone (717) 255-3252  
Fax (717) 255-3298

PUERTO RICO  
Puerto Rico Chamber of Commerce  
Rafael Rivera Rodriguez, Executive Vice President  
100 Tetuan Street  
P.O. Box 3789  
San Juan, PR 00902  
Phone (809) 721-6060  
Fax (809) 723-1891

RHODE ISLAND  
(No State Chamber)  
Greater Providence Chamber of Commerce  
James G. Hagan, President  
30 Exchange Terrace  
Providence, RI 02903  
Phone (401) 521-5000  
Fax (401) 751-2434

SOUTH CAROLINA  
South Carolina State Chamber of Commerce  
S. Hunter Howard, Jr., Executive Vice President  
1201 Main Street, #1810  
Columbia, SC 29201-3254  
Phone (803) 799-4601  
Fax (803) 799-6043

SOUTH DAKOTA  
Industry & Commerce Association of South Dakota  
Julie M. Johnson, President  
P.O. Box 190  
Pierre, SD 57501-0190  
Phone (605) 224-6161

TENNESSEE  
(No State Chamber)  
Nashville Area Chamber of Commerce  
Michael W. Rollins CCE, President  
161 Fourth Avenue North  
Nashville, TN 37219  
Phone (615) 259-4755  
Fax (615) 256-3074

TEXAS  
Texas State Chamber of Commerce  
Bruce Gibson, President  
900 Congress Avenue, #501  
Austin, TX 78701  
Phone (512) 472-1594  
Fax (512) 320-0280

UTAH

Utah State Chamber of Commerce Association  
Floyd Fox, President  
97 East St. George Blvd.  
Saint George, UT 84770  
Phone (801) 628-1658

VERMONT

Vermont State Chamber of Commerce  
Christopher G. Barbieri, President  
P.O. Box 37  
Montpelier, VT 05601  
Phone (802) 223-3443  
Fax (802) 229-4581

VIRGINIA

Virginia Chamber of Commerce  
Hugh D. Keogh, President  
9 South Fifth Street  
Richmond, VA 23219  
Phone (804) 644-1607  
Fax (804) 783-6112

WASHINGTON

Association of Washington Business  
Don Brunell, President  
1414 South Cherry  
P.O. Box 658  
Olympia, WA 98507  
Phone (206) 943-1600  
Fax (206) 943-5811

WEST VIRGINIA

West Virginia Chamber of Commerce  
Stephen Roberts, President  
P.O. Box 2789  
Charleston, WV 25330  
Phone (304) 342-1115  
Fax (304) 342-1130

WISCONSIN

Wisconsin Manufacturers & Commerce  
James S. Haney, President  
501 East Washington Avenue  
P.O. Box 352  
Madison, WI 53701-0352  
Phone (608) 258-3400  
Fax (608) 258-3413

WYOMING

(No State Chamber)  
Greater Cheyenne Chamber of Commerce  
Larry T. Atwell, Executive Vice President/G.M.  
301 West 16th

P.O. Box 1147  
Cheyenne, WY 82003  
Phone (307) 234-5311

Fax (307) 778-1450

TELEPHONE DIRECTORY OF  
BETTER BUSINESS BUREAUS

ALABAMA

Birmingham...	205/558-2222
Mobile...	205/433-5494
Montgomery...	205/262-5606

ALASKA

Anchorage...	907/562-0704
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ARIZONA

Phoenix...	602/264-1721
Tucson...	602/888-5353

ARKANSAS

Little Rock...	501/664-7274
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CALIFORNIA

Bakersfield...	805/322-2074
Los Angeles...	900/225-5222*
Sacramento...	916/443-6843
San Diego...	619/521-5898
San Francisco...	415/243-9999
San Jose...	408/445-3000
Santa Barbara...	805/963-8657

\*Los Angeles branch uses a pay-per-call  
service with a charge of 95Cents/Minute.

COLORADO

Denver...	303/758-2100
Pueblo...	719/542-6464

CONNECTICUT

Fairfield...	203/374-6161
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DELAWARE

Wilmington...	302/996-9200
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DISTRICT OF COLUMBIA

Washington, DC...	202/393-8000
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FLORIDA

Fort Myers...	900/225-5222*
Jacksonville...	904/721-2288
Miami...	900/225-5222*
Tampa...	813/854-1154
West Palm Beach...	407/686-2200

\*Pay-Per-Call 95 Cents/Minute

GEORGIA

Atlanta...	404/688-4910
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Savannah...	912/354-7521
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HAWAII	
Honolulu...	808/942-2355
IDAHO	
Boise...	208/342-4649
ILLINOIS	
Chicago...	312/444-1188
Rockford...	815/963-2222
INDIANA	
Fort Wayne...	219/423-4433
Indianapolis...	317/488-2222
IOWA	
Des Moines...	515/243-8137
Sioux City...	712/252-4501
KANSAS	
Topeka...	913/232-0454
Wichita...	316/263-3146
KENTUCKY	
Lexington...	606/259-1008
Louisville...	502/583-6546
LOUISIANA	
Baton Rouge...	504/926-3010
New Orleans...	504/581-6222
MAINE	
Portland...	207/878-2715
MARYLAND	
Baltimore...	410/347-3990
MASSACHUSETTS	
Boston...	617/426-9000
MICHIGAN	
Grand Rapids...	616/774-8236
MINNESOTA	
Minnpl's/St.Paul...	612/699-1111
MISSISSIPPI	
Jackson...	601/987-8282
MISSOURI	
Kansas City...	816/421-7800
St Louis...	314/531-3300

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NEBRASKA	
Omaha...	402/391-7612
NEVADA	
Las Vegas...	702/735-6900
Reno...	702/322-0657

NEW HAMPSHIRE	
Concord...	603/224-1991
NEW JERSEY	
Parsippany...	201/539-8222
Trenton...	609/588-0808
NEW MEXICO	
Albuquerque...	505/884-0500
NEW YORK	
Buffalo...	900/225-5222*
New York...	900/463-6222*
Syracus...	315/479-6635
*Pay-Per-Call 95 Cents/Minute	
NORTH CAROLINA	
Charlotte...	704/527-0012
Raleigh...	919/872-9240
OHIO	
Cincinnati...	513/421-3015
Cleveland...	216/241-7678
Columbus...	614/486-6336
OKLAHOMA	
Tulsa...	918/492-1266
OREGON	
Portland...	503/226-3981
PENNSYLVANIA	
Philadelphia...	900/225-5222*
Pittsburgh...	412/456-2700
RHODE ISLAND	
Providence...	401/785-1212
SOUTH CAROLINA	
Columbia...	803/254-2525
TENNESSEE	
Memphis...	901/795-8771
Nashville...	615/242-4222
TEXAS	

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Austin...	512/445-2911
Dallas...	214/220-2000
Fort Worth...	817/332-7585
Houston...	713/868-9500
San Antonio...	210/828-9441
UTAH	
Salt Lake City...	801/487-4656
VIRGINIA	
Norfolk...	804/627-5651
Roanoke...	703/342-3455

WASHINGTON

Seattle/Tacoma... 206/431-2222  
Spokane... 509/328-2100

WISCONSIN

Milwaukee... 414/273-1600

CANADA

Vancouver, BC... 604/682-2711  
Halifax, NS... 902/422-6582  
Toronto, ON... 416/766-5744  
Montreal, PQ... 514/286-9281

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DIRECTORY OF  
ADVERTISING-RELATED BUSINESS OPPORTUNITIES

BALLOON ADVERTISING

Boulder Blimp Co., 2480 Wilderness Pl., Ste. E, Boulder, CO 80301  
Lighter Than Air Inc., 10008 W. Flagler St., #185, Miami, FL 33174  
Rooftop Balloons, 10770 Rockville St., Ste. B, Santee, CA 92071

DIRECT-MAIL ADVERTISING

Adpak USA, 1709 Delaware Ave., McComb, MS 48603  
Advertising Solution Inc., 4839 E. Greenway Rd. Ste. 339, Scottsdale, AZ 85254  
Biro Enterprises, PO Box 290837, Port Orange, FL 32120  
Coupon-Cash Saver, 925 N. Milwaukee Ave., Wheeling, IL 60090  
Direct Mail USA Inc., 108 Main St., New Paltz, NY 12561  
Effective Mailers Inc., 21535 Groesbeck Hwy., Warren, MI 48089-3179  
Good News Advertising, 36-C Stoffel Dr., Rexdale, ONT M9W 1A8  
Canada Mark Productions, Ltd., 184 Quigley Blvd., New Castle, DE 19720  
Min-State Mailers, Inc., 825 N. Carter, Saginaw, MI 48603  
Money Mailer, 14271 Corporate Dr., Garden Grove, CA 92643  
Money Stretchers, 6799 Parma Pk., Cleveland, OH 44130  
The Coupon Book, 825 N. Center, Saginaw, MI 48603  
United Coupon Corporation, 8380 Alban Rd., Springfield, VA 22150  
Yellow Jacket Franchise Corp., 23161 Lake Center Dr. Ste. 202, Lake Forest, CA 92630

ELECTRONIC SIGNS

Reese, Bill, (617) 278-4344  
Research Marketing, 2561 Nursery Rd., Ste. C, Clearwater, FL 34624  
Sunitron Inc. USA, 1028 Gleason Cir., East Rochester, NY 14445  
Sunnywell Display System Inc., 661 Brea Canton Rd., #6, Walnut, CA 91789  
Super-Ads Inc., 2121 Abell Ln., Sparks, MD 21152  
The Stevenson Organization, 230 Gullane Rd., Charleston, SC 29414  
Wayne Industries, PO Drawer 2100, Clanton, AL 35045

PUBLISHING BUSINESSES

Clarion Newspaper, The, 4804 Chantilly Ln., Box 44064, Las Vegas, NV 89116  
Dolphin Publications, 1235 Sunset Grove Rd., Fallbrook, CA 92028  
Executive, The, 3064 Riverwood Terr., Birmingham, AL 35242  
Kosdale Corp., 4045 E. Palm Ln., Phoenix, AZ 85008  
Leisure Time Business, PO Box 1148, Nashua, NH 03061  
Network Publications Inc., PO Box 100001, Lawrenceville, GA 30246

Scott Publications, 4777 Sunrise Blvd, Ste C, Fair Oaks, CA 95628

#### MISCELLANEOUS

Advertising Solution, 8081 S. Madison, #288, Indianapolis, IN 46227  
Advest Advertising Inc., 2200-04 Darby Rd., Havertown, PA 19083  
American Employees Assurance, PO Box 1031, Chesapeake, VA 23327  
Basco, 9401 DeSoto Ave., Ste B384-31, Chatsworth, CA 91311  
Bench Ad Inc., 8081 Madison Ave., #231, Indianapolis, IN 46227  
Billboard Bags Inc., 1310 Server Dr., Colorado Springs, CO 80910  
Bodylog Inc., 34 Maple Ave., Armonk, NY 10504  
dB Recording Studios, 14619 Ella Blvd., #1606, Houston, TX 77014  
Discount Enterprises, PO Box 5423, Winter Park, FL 32793  
Dynamic Advertising Inc., PO Box 180310, Dallas, TX 75218-0310  
E. Robotics Inc., 66 Marion St., Boston, MA 02128  
Electronic Reservations Services, 795 Peace Portal Dr. 8071, Blaine, WA 98230  
Fiesta Cartoon Maps Inc., PO Box 3137, Tempe, AZ 85281  
High Readership Features, PO Box 1601, Solana Beach, CA 92075  
Impact, 8475 Ontario St., #205-B, Vancouver, BC V5X 3E8 Canada  
National Drive Buy Broadcasting Inc., 3403 Barton Rd., Pompano Beach, FL 3062  
National Yellow Pages Consulting, 675 Fairview Dr. #246, Carson City, NV 89701  
On-Target! Marketing and Media, 2830 North Ave Ste C401, Grand Junction, CO 81501  
R & J Publishing, PO Box 115, Brasstown, NC 28902  
Retail Promotions Inc., 138 Williamson Rd., Bergenfield, NJ 07621  
The Mark-King Company, 2545 San Fernando Rd., #1, Los Angeles, CA 90065  
Thermagenics Technologies, Inc., 3155 N. Colorado St., Chandler, AZ 85225  
Video/Ad, 201 N. Tehama St., Ste. D, Willows, CA 95988  
Write-1 Corp, 29 Gunpowder Dr., East Brunswick, NJ 08816  
Zoom Advertising, 528 N. 26th St., Allentown, PA 18104

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#### DIRECTORY OF FREE BUSINESS RESOURCES

Free advice on using mailing lists effectively.  
Calagraphics Publications, 247 Old Bergen Rd., Jersey City, NJ 07305  
or call 800-836-8266. \_

Free reference guide to answer questions about  
the UPC symbol. Matthews Int'l Corp., 252 Park West Drive, P.O. Box 318,  
Pittsburgh, PA 15230.

Free booklet on how to save money on office supplies.  
QUILL Corporation, 100 Schelter Rd., Lincolnshire, IL 60069-3621.  
Attention: Director of Advertising and Marketing.

Free computer report publishing mail-order business information.  
Pat Flanagan Publishing & Design, 540 Imus, Mishawaka, IN 46545

Free book - "How to make \$500 a day every day in your mail order  
business."  
Eileen K Rohleder, 305 E. Main St., Goessel, KS 67053.

Free pamphlet with money-saving travel advice. Call 1-800-428-3438.

Free "Small Business Success" 72-page publication. Pacific Bell  
Directory,  
101 Spear St., ATTN: Communications Dept., P-CWS4, Room 429, San  
Francisco,

CA 94105.

Free booklet "The TRUTH About: FINANCING A SMALL BUSINESS". Send your business card and \$2 P&H to J. F. Straw, FINANCING YOUR SMALL BUSINESS, 301-JL Plymouth Drive N.E. Dalton, GA. 30721-9983.

Free "A Guide For Small Business Owners" Health Insurance Association of America, 1025 Connecticut Ave., NW, Washington, D.C. 20036-3998.

Free mailing list catalog. Research Projects, P.O.Box 449, Woodbury, CT 06798. \_\_\_Free roof covering business information. Pace Products, Inc., Quality Plaza -11775 W. 12th St., PO Box 10925, Overland Park, KS 66210.

Free chimney maintenance business information. August West System, 38 Austin St., Box 658, Worcester, MA 01601-0658.

Free computer business information. Computer Business Services, Inc., CBSI Plaza, Sheridan, IN 46069.

Free commercial cleaning business information. Duraclean International, 3607 Duraclean Building, Deerfield, IL 60015.

Free tax preparation business information. Federated Tax Service, 2021 W. Montrose Ave., Chicago, IL 60618.

Free blind-cleaning business information. S. Morantz Inc., 9984 Gantry Road, Philadelphia, PA 19115.

Free personalized children's book business information. Best Personalized Books, 4350 Sigma Drive, Dallas, TX 75244.

Free custom engraving business information. SCM Enterprise, W168 N11318 Western Ave., Germantown, WI 53022.

Free child support collection business information. Child Support Collection Agency Of America, Inc., 4669 S.W. Frwy, Suite 714, PO Box 27329, Houston, TX 77227-7329.

Free windshield repair business information. The Glass Mechanix, Inc., 5313 Nob Hill Road, Ft. Lauderdale, FL 33351.

Free PVC furniture business information. PVC, Battle Ground, WA 98604-0010.

Free mail-order book business information. Premier Publishers, Inc., PO Box 330309, Fort Worth, TX 76163.

Free grocery coupon business information. Coupon Connection Of America, 4669 S.W. Frwy, Suite 714, PO Box 56162, Houston, TX 77227-6162.

#### HOW TO WRITE IRRESISTIBLE AD COPY

When selling through advertising, you're faced with two options, both of which you will probably use frequently. Those options

are display and classified advertising.

We won't deal here with radio and television copy writing because it is not something many of you will be using until you have developed a great deal of mail order experience. Once you're dealing with that sort of capital investment, you'll probably have an intimate understanding of the fact that expert help is essential to the successful launch of any campaign, and frankly, electronic media are not our field of experience.

Classified ad copy writing is a very exacting craft, not an art in the way that display advertising is. It involves following a few simple guidelines and requires little skill. That's why daily newspapers hire school and college students to take orders - and write - for their classified section over the telephone.

The first point worth noting is that classified ads are sold by the word or by the line. This has a bearing on how you write your ads, because if the ad is sold by the word, you're not going to write an ad that has a bunch of "a's" and "the's" in it. But at the same time, if it's sold by the line, it will be worth your while to include these words in the ad, as they'll appeal to the better educated segment of the market.

So an ad in at so much a line might read:

"The hottest thing in years. This is a household wonder you'll cherish for years."

The same ad at so much a word will read:

"Hottest recent development. Cherish this household innovation for generations."

Both are about the same length. The first reads nicely in proper English and the second used big, powerful words to make up for awkward structure.

When you buy by the word, which will be the case in most markets, use the biggest, most action-packed words you can think of. And while we're on the subject of word count, the way you mark your address in a classified is also important.

If you live on Dog Breath Lane, mark your address as 22 Dogbreath, unless in that subdivision, there also happens to be a Dog Breath circle, a Dog Breath Avenue and so forth, in which case Dogbreath Lane will do. You can usually get away with this ploy, since these ridiculous two name streets are there to sell houses, not to please the Post Office. If you live in Apartment 12, you can usually get away with 12-22 Dogbreath, which saves you another word. Never leave out the zip code, even a nine-digit zip code counts as one word and in many publications doesn't count as a word at all.

The initials of your name or company will also do unless you're trying to project an image, and this can save you from one to three words. Even your last name will be all right.

In most magazines and a few newspapers, your first word or line of type will be set in darker bold letters. Choose that first word or two very carefully. If you really want good results, do

exactly the opposite of what most other advertisers are doing, or be different.

If you've got an income opportunity and CASH, MONEYMAKING or INCOME are the usual first two words, be a bit creative, perhaps with BROKE (no more! Try selling doogles! or HORRENDOUS) (budget, a thing of the past.)

The first word or line gets your reader interested, and no matter how large the circulation of the publication, you'll suffer terribly if you're not attracting the reader as well as the other advertisers. Those opening words are crucial. Like the man said, you don't get a second chance to make a good impression.

Once you've made the hook, hold the reader by telling him exactly what you're offering. If it's an ad for more information, let him know what kind of information and where it leads. Then drop the cost on him, if any and your name and address. If it's a product, in words that say a lot. It's fine to pussyfoot in a display ad if you can afford the space, but short, sharp, to-the-point is what sells from classifieds.

One minor point or style to remember, if you're offering a bonus, leave it to the very last. "Bonus with..." won't work. A bonus or free gift is offered for one reason only: to hook someone who has not quite been sold by the rest of the ad. The offer of a bonus won't work UNTIL they know what it comes with.

Writing display ad copy is much more involved and should really not be undertaken by even the brightest English graduate without some expert help. As we stated earlier, ad copy writing is one of the highest-paying of the creative professions, mainly because it is so difficult to do.

If you must do it yourself, here's a few things you can do to make the task a bit more successful.

Making use of the techniques we mentioned earlier, determine which benefit your client is like to be most interested in.

Target the emotion that motivates the need for that benefit in most people. If you can do that, you'll hook the right person for the product. If you're selling runless pantyhose for example, you know the anti-run characteristic motivates the buyer, and the reason why women want to buy anti-run hose is to look better longer.

Hey, there's the lead for your copy! In big letters, you're going to flag your ad with LOOK BETTER LONGER! You might want to bracket it top or bottom by writing in smaller letters:

"Da-don't-run-run hose will help you "LOOK BETTER LONGER" in the Da-don't-run-run hose." If the client is interested in runless hose, you've got her. If not, forget it. Anything else you could use to get a client who doesn't wear pantyhose will cost your clients who do use them, and that's a waste.

Once you've got the initial benefit out in the open, either explain it or be very sneaky about adding another. So say:

"These pantyhose will give you the confidence in your appearance you won't get with other pantyhose..." or

"LONGER... and without blowing your budget. These will give you the confidence..."

but the best way to sneak in additional benefits without looking pushy is to say:

"LONGER! Without blowing your budget, these pantyhose will give you the..." using the new benefit as a prefix.

And, oh, it's so much more complex than that. It's obviously a development in synthetic fibers that allows those hose to be superior, so that must be included too, because the customer wants to know why they're so good.

Where do you mention it though? It might be just as effective to get to it right after the heading, in this manner:

"LOOK BETTER LONGER! Thanks to a new development in synthetic fibers, Da-don't-run-run panty hose will give you the confidence in your appearance you won't get with other pantyhose."

Then the money aspect. And how do you do that? Do you make the sentence longer or start a new sentence? YOU MUST WEIGH EVERY WORD WITH A SURGEON'S CARE! And what about a coupon at the bottom?

Do you use a small order form or use the address of the company? How many words do you need, and if you need a lot of words, can you afford the space it will take to print them?

Get a word count, and fix it within fairly narrow limits or you'll bore the reader or leave no room for graphics or blank space, which you must have to some degree for proper esthetic effect.

Speaking of graphics, what will you have to use? Will you have to make your own? (Clip art used by most dealers is horribly tacky.) And heaven forbid, you design an ad based on another successful campaign by another firm with similar products... and it works well that it sends their sales rising! It could happen.

There are many firms, probably even in small cities, that specialize in print media advertising, and many do excellent jobs.

You in Canada are fortunate, especially if you live in Toronto, Vancouver, Montreal or Calgary, since talent runs cheap in Canadian advertising firms and you can get excellent work, and we're sorry to say this but it will generally be more creative than American agencies of similar size.

The fact remains, though, that you know your product better than the agency, and you probably know how you want to sell it.

You might have ideas for wording, graphical layout, any number of things. If you truly want to make your campaign, and especially at that crucial first campaign, as profitable as possible, use the services of a graphics firm that composes



print advertising at the very least, and ad agency at the best.

By the way, we've discovered a lot of graphics houses have some frustrated ad copy writers who can give you expert direction at low cost if you'll only ask.

Be ready to take in all your ideas at the time you get your ad done. Every bit of work you do yourself should come off the bill you'll be paying for the job, since it cuts the time the agency or graphics house has to take to prepare the ad.

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## ADVERTISING MAGIC

The purpose of Advertising Magic is to show you advertising methods which have already been proven effective... techniques that not only produce prospects, but qualified prospects... the kind that buy because they want what is being offered, not because they are pressed into buying it. Marketing costs can run up to 50% of your sales dollar and every penny of your advertising/marketing costs may be justified. However, many small business owners/managers, simply don't know what all these costs are.

If you are to get the most from your advertising dollars, you must establish objectives for each of your marketing programs and then carefully measure the results. The many details involved in measuring the results is why so many operators never bother with this phase of their business. but without some type of measurements, you cannot hope to improve the effectiveness of your programs and increase the return on your advertising outlays. Knowing what is really happening to your marketing expenditures takes you a long way down the road to improving the effectiveness of your marketing program. But it takes work to learn what is really happening. Lets look at an example of advertising analysis:

The Smith Company sold a line of home improvement products. Annual sales were several thousands of dollars each year. The company spent an amount equivalent to 10% of sales to advertise its products. Although Smith's management had never analysed the effectiveness of the advertising expenditure, they considered it a necessary part of their marketing program.

A new marketing manager felt that the company could probably get more for its advertising dollar. Upon analyzing the costs and results of the programs, the manager made a number of interesting discoveries. The amount of money spent was divided evenly among three publications. However, inquiries by one of them outnumbered inquiries generated by each of the others by almost two to one. Analysis of the readers of each of the three publications revealed that the readers of the publication which produced the most inquiries was much more closely aligned with Smith's typical customer than those of the other two publications. As a result of these findings, the marketing manager increased the advertising in the most effective publication and stopped using the other two. In the process, advertising expenses were cut by nearly 50%, while the number of inquiries generated actually increased.

A second major finding made by the new marketing manager was that all the company's advertising featured the entire product line and stressed primarily the quality features of the company's products, rather than the benefits users might expect from them. Based on these discoveries, the manager began advertising only selected high volume items. New ads stopped stressing quality and began to emphasize user benefits instead. By carefully watching sales over a period of time, the marketing manager saw that the products advertised showed substantial sales volume increases. These increases more than offset the sales declines among the already low volume items for which advertising had been discontinued. Although this approach worked for Smith, it should be noted that, depending on competition, customer desires, and other factors, it may at times be a sound strategy to promote an entire line.

A questionnaire can also be sent to customers, or even prospects, to discover facts as to why the customer buys or not, and other information that could be of use in future marketing. It should also be taken into account that any ad that pays it's way can't be all that bad. At least you don't lose any money and you may gain a good prospect list for follow-up.

Let us suppose for a minute that you have been in business for short period of time. When you started, you were well aware of the fact that one of your most important assets is your mailing list. During your time in business, you will develop a mailing list, or should, small as it might be. This list should be separate as to prospects (those who did not buy) and customers (those who spent money for your products). These lists should be used and cleaned regularly. Cleaning is accomplished by sending a current offer to the entire list (after testing a small portion to make sure the offer will pay out) and by removing those names that have moved or otherwise where mail is returned as undeliverable. The list of customers should be used as often as you have anything new to offer. You have paid good money to find interesting prospects and many have proven to be buyers. They are to be tested as money in the bank. Former customers will know your company and your service. Products related to those which the customer bought originally may be of interest to many of your satisfied customers. And, as we began, follow up marketing requires the same careful measure of costs, including literature, postage, labor, etc. in relation to returns and profits.

We ran an ad in the mail order section of several mechanics magazines. We ran the same ad in several publications devoted exclusively to mail order. The response from the mail order magazines cost us almost one dollar each, while the responses from the mail order section of the mechanics magazines only cost about half that amount. However, we made no sales to the responses we received from the mechanics magazines, while the mail order magazines brought in more than four times our entire advertising and fulfillment cost. At first, it appeared that all the money we spent for advertising, literature, postage, labor, etc. in the mechanics magazines was wasted. However, a follow-up to that mailing list with another product proved profitable. Because we spent the time and effort to really look into what was happening with our marketing program, we made a profit on advertising that otherwise would have turned out to be

a loss.

One of the easiest ways to make money is to sell something that is in demand, something that can be advertised and sold profitably and quickly. New ideas to move merchandise are being tested daily and those which are repeated by the same advertiser must be profitable, otherwise they would not be used. Watch for ads that are repeated and try to apply them to your line of merchandise or service. At this writing, there is an ad that has been run by the advertiser for many months. Now others are beginning to copy the idea as they apply it to their own line of goods. The ad reads: "PLAYER PIANO \$75. 832 E. Broadway."

First: You will notice the ad advertises merchandise that is in demand. (Such merchandise is highly collectable. It is entertaining and prices must rise in the years to come, making it a good investment.) Second: The price is extremely low. Third: There is no name or phone number. Anyone interested must go to the address, for more information. The address could be anywhere... a store, warehouse, home, etc. In this case the address happened to be that of an old service station that had been turned into a resale shop.

Needless to say, the player piano advertised was in poor condition. Any parts worthwhile had been taken to repair other players of a similar type. Any prospect that comes in could purchase it, as is. It would have no value to anyone. As it happens, there are several other player pianos to choose from. They look good and are guaranteed. Some are from days gone by and very valuable while others are newer models. There is something for everyone. The seller is also available to make house calls for any repairs necessary after the guarantee period on the working models. When asked why he does not repair the \$75 model, he replies that it would tie up too much of his time for what he could sell it for, but someone who is handy could spend all the time he wants. In most every case, the cost of parts, the problem in finding them, the lack of knowledge in repairs and the overall cost that might be involved will discourage the prospect (and this was the idea all the time since the seller only wanted traffic to offer other models).

You can see how the business man gets qualified prospects into his place of business, not only for the merchandise advertised, but there is also exposure to higher priced pianos, players, and associated merchandise. A repair service is also offered, along with tips on the selection of a piano or player. You can even get instructions on how to refinish furniture. And supplies were available too. The player advertised was there and available for purchase. It could be a good purchase for anyone who will spend the time necessary to put it in working order. No attempt is made to switch the prospect to one of the high priced players. But they are there, AND... there is background music playing from one of the players in working condition. A love for the sound probably brought the prospect into the store to start with. Now the prospect immediately pictures the possibility of that working model in his own home when friends come over for a party. Since the prospect was interested when he/she came in, making a sale requires little more than some good answers to a few questions. After all, you are not spending money, you are making an investment that will bring hours of pleasure while increasing in value. Of course, not

everyone is going to buy, but with a wide range of merchandise and services, the business is a success.

After a long and careful investigation we could easily see the operating methods used in this successful venture. You can see the reasons for this success. HOWEVER, there are even more important reasons for his continued success. Take special notice of this: He never ran the same ad twice during the same month. Because he handled many different items, a different ad was used every month, each with a similar operating method. Additional proof that this method really works is the fact that he has continued the same operation for years without any legal problems that have been brought to public attention. He must be doing something right. His business is his ad, but seeing that each customer is satisfied is his real secret in trade. Because of the constant change of the merchandise advertised, his ad is noticed mostly by those only interested in the product advertised at any given time and there is little chance that any great number of people will ever connect the ads with a dealer.

Since most people expect they will save money buying from a private individual, and get better quality, they believe what they want and picture that ad as a private sale. Try it yourself. In your mind, select any piece of merchandise you would like to purchase. Now scan the classified want ads very fast searching for the item you selected. Be sure to concentrate on the item you are looking for. (Do not read any further until you have done this.) Now try to think of the addresses or phone number of ANY of those ads that were advertising merchandise you were NOT in the market for. You probably cannot remember much of the merchandise being advertised, and certainly not any addresses or phone numbers. After a few hours you will probably not remember any. Here lies the secret of this type of advertising. The ad goes practically unnoticed except to those who are really interested. The location or methods being applied go practically unnoticed indefinitely.

But this is not all. In another section of the classified, and with his home phone number, the same man advertises "PIANO ROLLS & PLAYER PIANOS REPAIRED & WANTED. Phone number." This is where he creates additional leads and picks up his stock for resale. You can probably do exactly the same thing with any merchandise you have an interest in. (Later we will show you how it applies to mail order.) This gentleman learned to fix player pianos at home from an inexpensive manual he purchased by mail. Using the same technique, he learned to refinish furniture, patch upholstery, repair furniture and perform dozens of other tasks in the same line. Each day he continues to apply the same principals and procedures to all types of merchandise. You might call this gentleman a "Jack of all Trades and master enough to make a good living".

How do you start this fabulous advertising business? Simply by advertising one of your discarded (but wanted or needed by many) articles for sale. It may be a musical instrument (along with music lessons), a stereo or CB Radio (along with repairs); a camera (along with film processing tips and or instructions on how to take good pictures) or anything else you can think of that you no longer want or need. Try your first ad with a phone number. This will enable you to find out what the people you

deal with are like. You get a better idea as to what they want and the price they want to pay. And this is only a start. Everyone has followed their own path in life, each meeting and dealing with many other different people. An endless variety of interests and trades will be represented. You can learn many things that will help your business from everyone you meet. Make it a point. Listen and ask questions, and here, then is the way to a growing business.

Although our business is publishing, we are interested enough to apply some of the methods shown here. We bought, traded and sold phonograph records, films, movie projectors, post cards, and books. They were of interest and did not require much space. You will be surprised at the business you can do with a little thought. There is also foolish advertising. At this point we are going to show you an actual example of an ad that ran for many, many years, and all this time it could only do harm. While the ad is real, and ran in one of the country's leading and most expensive newspapers for advertising, we have changed the names to protect what otherwise might be very good company. The ad reads "Edge FLEA MARKET, County Fair Ground, Union Town, March 9, 8 a.m.-7 p.m.

The fact is, the same ad ran so long that it had no meaning. You don't normally run an ad with the same date year around. Especially if there is no such date even when the month comes around. We were interested to attend this flea market, but because of the distance (a two hour drive) we were discouraged because of the obvious incorrect date. Days later we checked the paper again. The same ad appeared, but also the same date. The ad continued to appear for months, along with the same date. Years later, the same ad was in, with the same date and was still running at this writing. This doesn't say much for anyone connected with the ad. Thousands of dollars are paid out yearly for this kind of advertising. It can only hurt the business. It doesn't speak well for the newspaper either since they always claim to have personnel who check all ads daily.

Getting back to Advertising Magic, another clever ad has been running for years under "Merchandise for Sale" in one of our leading papers. The ad reads "CLOSEOUT. HOODS AND FANS. 564 N. Mail Street." This is another dealer using the bargain with only a few items left. This dealer is in the business of heating and cooling. With many small fans, heaters, and all the accessories that go along with installation of larger units, almost everyone is a prospect. Used merchandise is purchased by the dealer from companies going out of business and from individuals who are selling their homes or moving out of state. Closeout merchandise is bought from manufacturers who are selling off older stock at low prices. The dealer is then legal in his ad to advertise closeouts because there will be no more just like these. When the closeouts are sold, the dealer makes money just as if the models were new. The word "closeout" does not necessarily mean a reduction in price. In addition to all of the new and used merchandise, there is the costs of installation for larger or special units, delivery costs, etc. (A teenager could learn to operate this business with very little instruction.)

ADVERTISING MAGIC can also apply to mail order. What we try to do is expose your products and services to as many interested

people as possible. Notice we use the word "interested". This means that we want to receive as many inquiries from our mail order ads as possible, but we don't want the expense of sending literature to prospects who are not really interested. To do this, we first attract mail order prospects to our ad. We may do this in any number of ways. One of the most common is to offer a "Free Report". For instance, if you are a stamp dealer you might write a short report on "How to Make Money With Stamps". You then advertise "HOW TO MAKE MONEY WITH STAMPS". Free Report. Your name & address. This free report might be a "teaser" for a book on the same subject and both report and book might be a "teaser" to purchase stamps from you.

Now that we have seen how to capture the attention of mail order prospects, let's look at the method to cut our inquiries down to only the most interested. Here is the way to do it. Change your ad to this: HOW TO MAKE MONEY WITH STAMPS". Free Report. Send self-addressed stamped envelope. Your address." The fact that some effort must be made to send a self addressed stamped envelope will almost surely qualify most of your inquiries. In this way you also develop a quality mailing list for future offers, plus, you save money on your mailing costs. Advertising Magic can apply to most anything you sell, whether in person or by mail. Just work out a plan that will fit your product or service.

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#### 50 GREAT BUSINESSES TO START FOR UNDER \$500

There are some of you out there that will scoff, "What kind of business can really start with \$500?" Well, consider the fifty we present here.

When most of us here phrases like "Start a new business" or "start-up costs," our minds picture figures with a lot of zeros in them. While it is true that most businesses do require several thousand dollars to start up, there are certainly some that don't. They exist; it's just a matter of focusing in on them.

The businesses listed here range from computers to consulting, from accounting to auto repair, and many more. All can be operated from your home, eliminating the need for expensive formal office space. They are quite diverse; the one thing they have in common is that they can be started for \$500--and sometimes less.

As you are thinking about what kind of business to operate, consider where you live, your job skills, hobbies, the equipment you own, the needs of your community, and certainly, the work you enjoy doing.

Some people operate small manufacturing businesses out of their garage or basement while others set up service-oriented businesses in their kitchen or truck; some have discovered the lucrative field of importing goods, and others have tucked mail order companies into spare rooms, since they don't need a store front but only a mail box and space for inventory for this type of business.

Naturally, you shouldn't expect these ventures to make you

millions, but if you take them seriously enough you'll be able to do well at them. Some of these businesses might be better suited for a part-time endeavor, while others (with a little luck and a lot of hard work) will allow you to devote yourself to them full-time.

And who knows? Maybe they will make you millions. In any case, here are fifty opportunities.

**ACCOUNTING.** The "simplified" tax code has the public more confused than ever. If you are an accountant for a company, you can earn excellent part-time profits by offering tax consultation and tax preparation in your community. If you're not trained as an accountant, you can receive education from various sources including: H&R Block, 1-800-7taxlaw; National Tax Training, Monsey, NY 10952 (their home study course costs \$175.75); Federated Tax Service, 2021 W. Montrose Ave., Chicago, IL 60618 (free info). For other information about this business, write: National Association of Accountants, Small Business Advisory, 10 Tarragon Drive, P.O. Box 433, Montvale, NJ 17645.

**BUSINESS CONSULTING.** Consulting is a fast growing small business, and potentially one of the most profitable. If you have worked in a particular field for many years, and feel that you have some expertise, that you can share with other businesses, you can demand respectable fees for that knowledge. Consider starting a newsletter. Advertise via direct mail to potential business customers. Explain your background, what you have to offer, and, most important, how your knowledge can increase their profits or efficiency. get more information from: Consulting Opportunities Journal, published by Consultants National Resource Center, 500 Kaetzel Road, Gapland, MD 21736.

**COMPUTER CONSULTING.** As the computer prevades almost every aspect of our daily lives, people need to become computer literate--or at least know how to work things. If you have basic computer knowledge as well as specific expertise with popular software (Word Perfect, Lotus 1-2-3. etc.), individuals and other businesses will find your help worth paying for. You can have clients come to your home, but they might feel more comfortable if you came to their offices or homes to work on their particular machines. Of course if you consult for business, you must go to them. Advertise in the Yellow Pages or send direct mail queries to various business offices that you know use computers. Check your local computer dealers and ask about businesses that have just bought computer systems--you KNOW they'll need help, and the dealer usually isn't interested in helping customers work the things once they've made the sale. In fact, you might be able to enter into a deal with the computer dealer in which he recommends you as a consultant. For further reading: The Computer Consultant, Schueler Communications, Inc., 208 N. Townsend Street, Syracuse, NY 13203.

**COMPUTER PROGRAMMING.** No software package right now out of the box is going to work for a business exactly the way they want it to, so custom computer programming is often needed. Your programming ability can create a custom applications for retailers and other businesses. If this idea interests you but you don't know programming, a home study course available from International Correspondence Schools, 925 Oak St., Scranton, PA

18508-9989.

CLOWNING. This business is no laughing matter. decent profits can be earned from doing your funny business at children's parties and schools. Contact nursery schools, pre-kindergarten classes, and day care centers and offer your services. The schools may not be able to pay much, so birthday parties are probably your best bet. Advertise on community bulletin boards and in local shopper papers. Two publications worth getting are: Creative Clowning, Java Publishing Co., 6510 Lenham Dr., Colorado Springs, CO 80918 (\$16.95); and Start A Clowning Business by Donna Huff, 203 State Rd., Sellersville, PA 18960 (\$5).

DJ SERVICE. Good disk jockeys are still in demand for large parties of all kinds: birthdays, anniversaries, small weddings, office parties, dances, etc. You'll need a large selection of popular dance tunes that covers a wide variety of tastes and styles, and quality sound equipment that is both portable and powerful enough to project throughout a large auditorium. You might consider staging your own dance weekends at a resort, charging per couple. Place ads Yellow Pages for this service.

GARAGE SALE ORGANIZER. Sure you can make some money with your own garage sale, but you can make much more by becoming a professional. You can organize and run garage sales for dozens of households in your town. Your sales pitch is that you know what sells and what doesn't, how to price objects, how to attract customers and what to serve (such as free coffee). As the organizer, you can either charge a flat fee for your services or accept a percentage of the total take. But you must insist that you run the show, and that your decisions on pricing and display are not questioned. Look for The Garage Sale Book, \$7.95 from E.A. Morgan Publishing Co., Dept IO-10, P.O. Box 1375, Huntington, NY 11743-1375. Or How To Profit from Garage Sales, \$5.95 ppd. from Income Opportunities Booklets, P.O. Box 40, Vernon, NJ 074672.

HAULING, LIGHT. If you have a pickup truck, there are numerous tasks you can undertake for customers: hauling trash, dirt, appliances, lumber, etc. Advertise your services on bulletin boards and in the local Pennysaver. Suggested reading: How To Earn \$15 to \$50 an Hour and More with a Pickup Truck or Van by Don Lilly; available from Darian Books, 4909 W. Joyce Circle, Glendale AZ 85308; \$14.45 ppd.

HOUSE SITTING SERVICE. When families stayed put, it used to be possible for some member of the family to feed the pets, water the plants, and take in the mail on those rare occasions when someone was absent from home. But in today's mobile society, a homeowner will often have no family member living in the same town and won't even know the neighbors. So the need for house-sitters keeps growing. You can provide that service, either as a sitter yourself, or as a manager of a group of house sitters. For a comprehensive manual on how to start and operate this business, write for How to Run A Housesitting Business by Jane Poston, 1708 E. 4th St. Tucson, az 85719; \$36.

LAUNDRY SERVICE. There are many services you can provide for the modern single or couple, both of whom work, and laundry is one of them. You'll need a large capacity, heavy duty washing machine and the inclination to wash, dry and fold clothes all day. But



substantial profits are there for the taking. this service might be perfect in an apartment building where the tenants must share washers and dryers. The apartment dwellers (most of who dread doing the laundry anyway) will pay for the coin-operated machine PLUS your fee. As an added service, you can offer to take clients suits, dresses, and coats to be dry cleaned, and deliver them when done.

**AEROBIC INSTRUCTION.** There is no end in sight to America's penchant for fitness. If your finished basement is large enough, you can hold exercise and fitness classes for men and women in your community. If you don't have the space, see about leasing space at local YMCA, YWCA or other such facility. Study nutrition and offer a complete package of nutrition and exercise guidance. To find out about aerobics certification, contact the Aerobics and Fitness Association, 15250 Ventura Boulevard, Suite 310, Sherman Oaks, CA 91403.

**MUSIC INSTRUCTION.** Whether or not rock and roll is to thank, today's kids are interested in music as much as ever. And they'll always need lessons in piano, guitar, clarinet, etc. Schools usually provide some basic instructions, but instrument-specific, one-on-one instruction is always necessary. Your proficiency with a particular instrument and provide your home-based business. If your instrument is a popular enough lessons to keep you busy practically all day every day. Advertise everywhere: school and community bulletin boards, local shopper papers, and Yellow Pages.

**APARTMENT RENTAL LIST.** Put your home computer to use and become an apartment broker finding renters for empty apartments. Allow the apartment owner to list his rental free; your profits come from the renter who pays you for finding the space. Add a printer to your computer and you can publish a local paper of available rentals. On the flip side, you can also be an apartment locator. Students and other individuals looking for apartments can come to you for help. Apartment buildings and homes with rooms to let will gladly place their names what you.

**ROOMMATE SERVICE.** The growing number of unmarried Americans has led to the development of this match-up industry that is easily run from one's home. You'll find roommates for people who prefer not to live alone or can't afford to. The high cost of rents and mortgages, the soaring divorce rate, and the inability of salaries to keep pace with inflation are sending more and more singles in search of roommates. For assistance in starting this type of business, contact: Roommate Referral, 8139 S. I-35, Oklahoma City, OK 73149.

**ANSWERING SERVICE.** When you install an extra phone line (or several depending on the size of your business) in your home, busy people can have their calls call-forward to you. You take the messages for them. the only caveat with this business is that you have to be home ALL the time (or at least during the hours that you establish) to answer the phone. A booklet entitled How to Start Your Own Telephoning Answering Service is available for \$5 from E.A. Morgan Publishing Co., Dept IO-10, P.O. Box 1375. Huntington, NY 11743-1375. a newsletter called The Message is available from the Association of Telephone Answering Services, 29 W. 57th ST., New York, NY 10019.

BABY-SITTING. The old standby is still a money-maker--even more so, in fact, because mothers are busier than ever. A more lucrative angle to baby-sitting is to become a baby sitter broker. You advertise the service in various locations, then have a number of baby sitters on call. That way, parents can always be assured of getting a sitter when they need one. As a broker, you take 10 percent of what the sitter earns. For more information: *The Complete Babysitting Handbook*, by Elizabeth James and Carol Barkin, Julian Messner, 1230 Avenue of the Americans, New York, NY 10020.

BED AND BREAKFAST/HOMESTAYS. Turn your home into a welcome haven for travelers and tourists. Unlike full fledged B&Bs' homestays usually have one or two rooms available for paying guest. For young couples struggling to pay off mortgage, or for retired couples interested in a part-time business, homestays allow home owners to turn extra rooms into extra dollars. Of course, not every home will make a good bed and breakfast homestay. Nor all people cut out for being a B&B host/owner. A prospective host/owner should enjoy meeting all kinds of people, like to cook, enjoy entertaining visitors, keep the house clean and neat, and live in an area that is attractive to visitors. You can obtain more information from: National Bed and Breakfast Association, P.O. box 332, Norwalk, CT 06853; American Bed and Breakfast Association, P.O. Box 23294, Washington, DC 20026.

CALLIGRAPHY SERVICE. If you already know how to do calligraphy, the art of beautiful writing, there's a market for your talents among those needing special invitations, personalized greeting cards, diplomas, and certifications. You'll need calligraphy pens or markers, available from any art supply store. The business cards you have printed up should be done,, of course, in calligraphy--it is as once a advertisement for your business and demonstration of your skills. If you don't know how to do calligraphy, you can learn from the publication, *Calligraphy For Fun & Profit*, available for \$9 from E.A. Morgan Publishing Co., P.O. Box 1375, Huntington, NY 11743.

CHAUFFEUR/LIMOUSINE SERVICE. Everybody wants to go in style to weddings, concerts, business meetings, even funerals. And what better way to go than a fully equipped, chauffeur-driven limousine? In the style-conscious 1990s, when image is everything, more and more people are doing it to propose marriage, celebrate an anniversary, close a business deal, or go to the theater. You as a limo provider and/or driver can cash in to the tune of \$40 to \$125 an hour on each car. Check with your State Department of Motor Vehicle Licensing for special license requirements. *How To Start and Operate Your Own Limousine Service* is available for \$5.95 ppd. from Income Opportunities Booklets, P.O. Box 40, Vernon, NJ 07462.

CHILD DAY CARE CENTER. Today, when more and more mothers are working outside the home, the need for quality child care keeps increasing. It is a service that can be operated by mothers of any age--or even a retired couple. Home care providers are often regulated just as day care centers are. Call and talk with the local agency of family and children services; they can advise you on the licensing or registration requirements you will be expected to follow. These requirements cover such things as how many children you may have in your care, how much space you need for each child, and appropriate meals and snacks. They also offer

classes in child care and development that you may want or may be required to attend. By registering with family and children services and following their recommendations, you can gain added credibility with your new clients. While planning a home day care service, you should do your own survey of what day care options are currently available in your area. Charge by the day or week. Rates run between \$150 and \$200 per month per child. Be certain of insurance regulations and your personal liability. A recommended book is *SO You Want To Open A Profitable Day Care Center*--by Patricia Gallagher, P.O. Box 555, Worcester, PA 19490 (\$12.95).

GROCERY DELIVERY. There aren't many grocery stores or supermarkets that deliver groceries to customers anymore, but with the increasing number of two-income families and the increasing demand on leisure time, grocery delivery is once again needed. So why don't you take up the slack? Here's how you might work it; arrange with a supermarket to buy groceries at a discount (because you're buying in quantity), and deliver them to your customers. During its first week in business, a company called Grocery Express in Memphis, Tennessee, made seventy six deliveries--\$2,600 worth of groceries, of which they kept 10 percent.

HOME HAIRSTYLIST. The elderly and otherwise homebound can always get a visiting nurse, but it's difficult to find a hairdresser who will make house calls. There's your opportunity if you have hairstyling skills. In the privacy of a hospital room or their home, your customers can get cuts, colors, shampoos, perms, maybe even manicures. If you want to think big, you can run an entire network of home hairstylists; licensed hairdressers and cosmetologists might agree to work for you on an "on-call" basis.

PARTY PLANNER. Be a professional party thrower for individuals and businesses. Find the right location, arrange the entertainment, provide the food and decorations--the whole works. For supplies, contact: Part Time Inc., 395 94th Avenue, N.W., Minneapolis, MN 55433.

RESUME WRITING. Before anyone embarks on a job search--whether he is a veteran in the work force or a college graduate--he'll need a resume. Since resumes play such an important role in a job hunt, they demand special attention. Writing designing (choosing paper, typeface, and format), and producing them may be a job that you have a knack for doing. You may have heard about resume writing services, but never knew how they alone could sustain a business. This service, though, is something that is always in demand, can easily branch out into other forms of typing services, and requires little overhead and start-up capital. Two good books on the subject are: *The Resume Catalog: 200 Darn Good Examples* by Yana Parker, Ten Speed Press, P.O. Box 7123, Berkeley, CA 94707 (\$10.95); *Resumes That Work* by Tom Cowan, New American Library, 1633 Broadway, New York, NY 10019.

VIDEOTAPING SERVICE. With your camcorder you can produce "mini-movies" of weddings, baptisms, bar mitzvah, family picnics, and birthday parties. Other ideas include video inventory for insurance purposes and video yearbooks for high schools and colleges. You may need more than one camera (and more than one operator) and some editing equipment for professional results.

One book on the subject: How To Make Money with Your Video Camera by Ted Schwarz; Prentice Hall, Englewood Cliffs, Nj.

BOARDING PETS. When their owners go off on vacation, dogs, cats, birds and other pets require looking after. You'll have to have the proper facilities to care for them, of course, plus a genuine love for animals. You may get more information from: American Boarding Kennel Association, 4575 Galley Road, Suite 400 A, Colorado Springs, CO 80915.

DOG GROOMING. Pet lovers who want to keep their pooches in tip-top form will be your customers. Contact: National Dog Groomers Association of American, Box 101, Clark, PA 16113. It publishes Groomers Voice and has a licensing committee.

APARTMENT/HOUSE CLEANING. Start your own maid service for apartment buildings or home residences. House cleaning is one business that doesn't require special training. Most women and men have been doing it in their own homes for years. Today, even teenagers are providing single and team-cleaning services in their after school hours and during summer vacation. Put a listing in the Yellow Pages or in the local shopper paper, put up notices on community bulletin boards. If your service is thorough and reliable, you'll acquire new customers through word-of-mouth. Be sure to spell out to your clients exactly what duties you will and will not perform. A manual called Operate Your Own Maid Service is available for \$31.95 ppd.. from Hanneke Wasserman Ent., Dept IO-10, 9070 Kimberly Blvd., #205, Boca Raton, FL 33434.

AUTO TUNE-UPS. Many times, specializing in a single service can really bring in the customers. Turn your garage into a business that just performs auto tune-ups. Be careful of local zoning laws, however. If you don't have adequate space in your garage, consider a mobile auto fix-up service (since many cars may not be in running condition to come to you anyway). You can perform tune-ups, oil changes, tire rotation, and replacement, fluid changes, and even auto cleaning, all from a well equipped van. A home study course in Automotive Servicing is available from NRI Schools, McGraw-Hill Continuing Education Center, 3939 Wisconsin Ave., Washington, DC 20016.

BICYCLE REPAIR. If you like working with your hands, don't mind getting dirty, and have an interest in getting paid while you learn mechanical skill, then bicycle business is where you can take a ride on the road to good part-time profits. Part-time mechanics command \$25 per hour for their labor. It is not uncommon for the twenty-hour per week bicycle business to earn over \$20,000 per year. And the great thing about it is you can start immediately, purchase the necessary tools, and acquire the skills as you go along. Plus, because bicycle riding is becoming increasingly popular with the young and the old alike, ace mechanics will be in demand for the next century. If you are a mechanically inclined or have a good working knowledge of bicycles, then you're all set. Make yourself known to the schools and bike clubs. If you need to learn how to repair bicycles, a manual A Bicycle Repair Business System is available from: Bicycle repair of America, P.O. Box 24106, Minneapolis, MN 55424.

CARPET CLEANING. This type of business for which the demand will never lessen. With the right kind of equipment you can "clean up" so to speak. Quality equipment is available from Von Schrader

Co., 1600 Junction Avenue, Racine, WI 53403, With it you can clean carpets, walls and furniture.

CHIMNEY SWEEP. Fireplaces and wood stoves are more popular than ever, which means there's opportunity in cleaning chimneys. In your advertising, stress that dirty fireplaces are a serious fire hazard as creosote builds up inside the chimney can combust. For supplies, contact: Copperfield Chimney Supply, 1-800-247-3305. Or write to: National Chimney Sweep Guild, P.O. Box 1078, Merrimack, NH 03050.

DRIVEWAY FINISHER. Many home owners like to have their driveways resealed and recoated with blacktop every year or every other year. But it's a messy, time-consuming task. Hence, an opportunity for you. You'll need a pickup in which to carry your tools, blacktop, and sealer which you can probably get at discount if you buy quantity. Ads in local papers and Yellow Pages probably work best.

FURNITURE REFINISHING/REPAIR. rockers with loose spindles, tables with wobbly legs... they can all come into your home workshop in sad condition and leave in tip-top shape. Also, people like to buy furniture from these so-called naked furniture shops with the hopes of saving some money by finishing it themselves; often, however, they never get around to it or chicken out. Perhaps you can even affiliate yourself with a naked furniture shop who will refer customers to you as a finisher.

HOUSE PAINTER. House painting is a chore most home owners need, sooner or later, but often dread. You can paint the houses yourself, but it might be more profitable to organize a group of painters to work for you. You find the clients through local advertising and hire students to do the work.

LANDSCAPING. Commercial sites as well as residential homes are in need of this service. Seed lawns, plant trees, arrange shrubs, plants, rocks, and more for a healthy fee. Some periodicals that may be of interest include: Landscape and Irrigation, P.O. Box 156, Encino, CA 91426; Western Road, Suite 250, Santa Ana, CA 92705. A related business is just lawn service in which you cut, lime, fertilize, and water lawns for a circuit of customers. Charge them by the season or per visit.

LOCKSMITH. In this security conscious day and age, a good locksmith is always in demand. And today, locksmiths are usually well versed in mathematics and basic electronics because of the many new types of locks being introduced. Without a full line equipment required to handle a wide variety of jobs, you will be limiting your total income potential. The more you invest in quality equipment, the more different jobs you can handle. Equipment and a locksmithing course are available from Foley-Belsaw Locksmiths, 6301 Equitable Rd., Kansas City, MO 64120. One report worth looking at is: How To Start your Own Mobile Locksmithing Service from E.A. Morgan Publishing Co., P.O. Box 1375, Huntington, Ny 11743; \$7.00.

SMALL ENGINE REPAIR. Fix small engines for lawn mowers, leaf blowers, chain saws, go-carts--anything that utilizes a small gasoline engine. If you have knowledge about small engines (or are willing to learn) you could turn that interest into extra

income. The secret is to find small gas engines, buy them cheap, and resell them at a profit. Where can you find small gas engines for five dollars or less? Check out the local flea market, or ask the trash haulers to set aside lawn mowers, edgers, anything with a small gas engine for you. Pay them up to \$5 a shot, depending on the condition of the items. You can learn more about small engine repair from Foley-Belsaw Institute, 6301 Equitable Rd, Kansas City, MO 64120.

UPHOLSTERY REPAIR. Rather than buy new sofas, chairs, loveseats, couches, and ottomans, people would prefer to have someone like you reupholster them. The numbers practicing this skill seem to be dwindling, so there's a real opportunity there. As apart of your services, consider the making of slip covers for the furniture. For upholstery training and tools, contact: Foley-Belsaw Institute of Upholstery, 6301 Equitable Rd., Kansas City, MO 64120.

ADVERTISING COPYWRITER. If you are clever with words and have a good sense of salesmanship, there are many small businesses in your community which can use your services. You can write newspaper ads, brochures, radio ads, catalogs, and more. For more ideas, look for a copy of the 1990 Writer's Market, Writers Digest Books, F&W Publications, 1507 Dana Avenue, Cincinnati, OH 45207.

COURIER SERVICE. Deliver messages and packages for various businesses within your town. If you have a car, you can even offer to deliver parcels to neighboring towns and cities. How To Start and Operate Your Own Delivery Service is available for \$5.95 ppd. from Income Opportunities Booklets, P.O. Box 40, Vernon, NJ 07462.

TYPING/WORD PROCESSING SERVICE. Students, businesses, legal professionals, writers and many others need reports, papers, documents, and manuscripts professionally typed. Of course it's much easier to provide this service if you have a good word processor, small changes can easily be done without having to retype the entire document. Post ads on school bulletin boards, and send direct mail flyers to doctors, lawyers, and other businesses.

BAIT SHOP. Do you live near a well-stocked lake, river, bay or stream? Fisherman will need bait, lures, line and other equipment. You don't have to offer all of that, of course. Just posting a sign telling fishermen you have good bait worms will bring in the profits.

BRONZING KEEPSAKES. What mother wouldn't want a bronzed remembrance of her child's babyhood? Bronzed baby shoes have long been cherished memento adorning mantelpieces and curio shelves. You can find customers by checking registration lists at day care centers and preschools; these kids have outgrown their first pair of shoes which are ready for bronzing. You can obtain materials and instructions from these companies: Nicholas Bronze Supply, 10555 U.S. Highway 98, Dept W488, Sebring, FL 33870; or United Bronze, Rumford, RI 02916.

FIREWOOD SALES/DELIVERY. Provide seasoned firewood by the cord or by the fraction of the cord to a growing number of buyers. One angle is to buy cords of seasoned wood, then cut it in

fireplace-size logs and sell fractions of the cord to a route of clients. Tell them you can bring a fresh supply of firewood every week (or however long the wood happens to last) for a set price. You can charge for each delivery, or offer a special deal to provide wood for the whole winter.

FRAME MAKING. Make frames of all kinds for customers paintings, reprints, and posters. Stock a wide variety of wood and metal frames in your garage or finished basement. You will need framing skills and tools, as well as glass cutting skills. For added profits, you can sell posters and prints of various kinds.

GIFT BASKETS. This is one of the hottest product-oriented home businesses around. You don't have to make the wicker baskets yourself (check your Yellow Pages for a supplier), but it is up to your taste and imagination to fill them with tempting goodies. Create baskets for all occasions--birthdays, anniversaries, retirements, births, Mother's and Father's Day, Valentine's Day--or no occasion at all; "I Miss You" gift basket. Find suppliers who will sell the items in quantity for the best price. Put a variety of food items in the basket along with small gifts appropriate to the occasion: satin hearts for Valentine's Day; a rattle, baby birth (gift baskets don't always have to contain food) champagne for anniversaries, etc.

STAINED GLASS. Customers will pay a premium for well-executed stained glass. Many local stained glass shops offer lessons, and once you become proficient at it, you can create stained glass ornaments, gifts, even windows. A three-year program is sponsored by the Stained Glass Association of America, 8821 Bridgeport Way S.W., Tacoma, WA 98499, Attention Chairman, Education Department.

CATERING. Quality catering is more in demand than ever before. Your culinary skill can bring in lots of profits. Home study courses are available from: International Correspondence Schools, School of Catering, Oak and Pawnee Streets, Scranton, PA 18518; and NRI Schools, McGraw-Hill Continuing Education Center, 3939 Wisconsin Ave., Washington, DC 20016.

LUNCH DELIVERY. Make speciality and conventional sandwiches for delivery to hungry office workers. Create a menu of what you're prepared to offer for lunches and distribute them to every office possible in your area--you'll be surprised at the great number of orders you'll get, so prepared. You may even need help in making the lunches. If you don't want to make the lunches yourself, another angle deals with area restaurants and deli's to provide the food--you will deliver fresh and hot. Your menu will consist of these restaurants various house specialties. The restaurants, because you're buying in quantity will give you a discount on the food; you mark it up for your profits.

END OF THIS ARTICLE

229 HOT PLACES TO RUN YOUR CLASSIFIED AD

CLASSIFIED ADVERTISING IS A PROVEN METHOD

Classified advertising has always been, and will continue to be the favorite method for Mail Order "Pros" to advertise. Almost all Mail Order Pros started with these tiny inexpensive ads since they represent the best cost effective way to reach millions of people.

## TWO BASIC METHODS

Two basic methods are used with classified advertising. (1) Place an ad offering FREE literature, and then send your literature to all inquiries. A "free" offer will always out pull an ad that requests money, but your overall profits may be larger since you will generate more inquiries. This method is excellent when you are also collecting "Opportunity Seeker" names that you can rent. You should be able to generate fresh National leads for \$.20 to \$1 using this method. (2) Offer a report for \$2 or \$3 and then send out other offers with your orders. This eliminates the "Opportunity Seeker" who never buy anything, and your operation is much cleaner and void of "busy" work.

## OVER 200 LISTED PUBLICATIONS

The following is a listing of over 200 magazines that offer classified advertising. The first group of magazines represent the mail-order "Pros" favorites, and they will always out pull other magazines for opportunity offers. The second group has been selected from thousands of other magazines (1) they offer classified advertising, and (2) they are the least expensive (Word Cost/Circulation ratio). Notice that the last column provides the Word Cost/Circulation ratio. That is, this ratio shows you how much it will cost you for each word for every 1,000 people who get the magazine. The lower this ratio is, the more cost effective it is. For example, if you were to advertise in the National Enquirer, it would cost \$8.95 for each word, and it will cost you \$.0023 for each 1,000 persons that get the National Enquirer. In this example, if you placed a 10 word ad, it will cost you \$89.50, and it will be sent out to 3,500,000 people.

## COST/CIRCULATION RATIOS

This may seem like an expensive ad, but the cost to get your 10 word ad to 1,000 people is only  $(\$0.0023 \times 10) = \$0.023$ ! That's right - two cents!! For every 1,000 people! Therefore, learn to evaluate the circulation/cost ratio since this will tell you the relative cost that is important. As a further example, consider advertising in the "Hounds And Hunting" (#238). Here the cost for a word is only \$.22. Good Deal? NO! In this case your Word Cost per 1,000 is \$.0227. Therefore,



your cost to place a 10 word ad per 1,000 people is  $(\$0.0227 \times 10) = \$0.227$ ! That's over 10 times more expensive than the National Enquirer! However, if you were selling something for hunting, it might actually pull better than National Enquirer.

#### ASK FOR RATE CARD

Before you place an ad, write to the magazine and ask for their "Rate Card" for both classified ads and space advertising. You will normally receive a large package containing a sample publication, advertising rates, schedules and discounts offered for multiple insertions placed for sequential publication dates.

This Group of Publications Have Always Proven To Produce Excellent Results For Opportunity Offers:

#	MAGAZINE NAME	CIRCULATION
1.	Globe Group 3,000,000 Weekly P.O. Box 21 Rouses Point, NY 12979-0021	
2.	The Star 2,900,000 Weekly P.O. Box 1510 Clearwater, FL 34617	
3.	National Enquirer 3,500,000 Weekly P.O. Box 10178 Clearwater, FL 34617	
4.	Grier's Almanac 3,011,680 Annually P.O. Box 888281 Atlanta, GA 30356	
5.	Field & Stream Monthly Two Park Ave New York, NY 10016-5695	2,000,000
6.	Classified, Inc. 25,000,000+ Monthly 100 E. Ohio Street, Suite 632 Chicago, IL 60611	
7.	Grit 330,496 10 times/yr Stauffer's Magazine Group 1503 S.W. 42nd St. Topeka, KS 66609-1265	
8.	Capper's 353,422 26 times/yr Stauffer's Magazine Group 1503 S.W. 42nd St. Topeka, KS 66609-1265	
9.	Popular Science Monthly 2 Park Ave. New York, NY 10016	1,861,155
10.	Popular Mechanics	

	1,633,210	Monthly	
	224 West 57th Street		
	New York, NY 10019		
11.	The Workbasket		2,726,000
	6 times/yr		
	700 West 47th St., Suite 310		
	Kansas City, MO 64112		
12.	Home Mechanix		1,003,244
	Monthly		
	2 Park Ave.		
	New York, NY 10016		
13.	Crafts 'N Things		
	287,828	8 times/yr	
	701 Lee St. #1000		
	Des Plaines, IL 60016		
14.	The Family Handyman		
	1,000,000	10 times/yr	
	28 W. 23rd Street		
	New York, NY 10010		
15.	Workbench		
	1,025,000	6 times/yr	
	700 West 47th St., Suite 310		
	Kansas City, MO 64112		
16.	Crafts Magazine		1,000,000
	Monthly		
	P.O. Box 1790		
	Peoria, IL 61656		
17.	Money Making Opportunities		
	222,000	8 times/yr	
	11071 Ventura Blvd.		
	Studio City, CA 91604		
18.	Spare Time Magazine		
	301,000	9 times/yr	
	5810 W. Oklahoma Ave.		
	Milwaukee, WI 53219		
19.	INC. Magazine		647,211
	Monthly		
	38 Commercial Wharf		
	Boston, MA 02110-3883		
20.	Fate		
	200,000	Monthly	
	Llewellyn Publications		
	Box 64383		
	St. Paul, MN 55164		
21.	Income Opportunities		
	400,000	Monthly	
	1500 Broadway, Suite 600		
	New York, NY 10019		
22.	Success		1,200,000
	10 times/yr		
	PO Box 570		
	Clearwater, FL 34617-0570		
23.	Book Business Mart		
	50,000	3 times/yr	
	Premier Publishers		
	P.O. Box 330309		
	Fort Worth, TX 76163-0309		
24.	Opportunity & Income Plus		
	250,000	Monthly	
	73 Spring Street #303		
	New York, NY 10012		

25. Entrepreneur  
1,700,000 Monthly  
P.O. Box 570  
Clearwater, FL 34617-0570
26. Black Enterprise  
240,000 Monthly  
130 Fifth Ave.  
New York, NY 10011
27. Mail Profits  
15,000 6 times/yr  
P.O. Box 4785  
Lincoln, NE 68504

This Group Represents More Good Magazines With Low Cost/Circulation Ratios

28. Hemmings Motor News 261,551  
Monthly  
P.O. Box 256 Rt 9 West Blvd  
Bennington, VT 05201
29. The Old Farmers Almanac 4,400,000  
Annually  
PO Box 520/Main Street  
Dublin, NH 03444
30. The Ladies Birthday Alman. 3,803,450 Annually  
1715 W. 38th St.  
Chattanooga, TN 37409
31. Cat Fancy 237,528 Monthly  
2401 Beverly Blvd.  
Los Angeles, CA 90057
32. The Antique Trader Weekly 190,000 Weekly  
P.O. Box 1050  
Dubuque, IA 52001
33. Cars and Parts 106,111 Monthly  
PO Box 482  
911 Vandermark Rd.  
Sidney, OH 45365
34. The American Rifleman 1,372,371  
Monthly  
470 Spring Park Place  
Herndon, VA 22070
35. The American Hunter 1,359,643 Monthly  
470 Spring Park Place  
Herndon, VA 22070
36. Railfan and Railroad 144,216 Monthly  
Carsten's Publications, Inc.  
P.O. Box 700  
Newton, NJ 07860
37. Bird Talk 123,134 Monthly  
PO Box 57900  
2401 Beverly Blvd.  
Los Angeles, CA 90057-0900
38. Model Railroader 181,683 Monthly

- 1027 N. 7th St.  
Milwaukee, WI 53233
39. Sports Collectors Digest  
43,361 Weekly  
700 East State St.  
Iola, WI 54990
40. Muscle Car Review  
71,235 10 times/yr  
Dobbs Publishing Group, Inc.  
3816 Industry Boulevard  
Lakeland, FL 33811
41. The American Legion Magazine  
Monthly 3,004,913  
PO Box 1055  
Indianapolis, IN 46206
42. Crochet World  
72,300 6 times/yr  
House of White Birches  
306 East Parr Rd  
Berne, IN 46711
43. Gun Week 20,000+  
Weekly  
Box 488 Station C  
Buffalo, NY 14209
44. Quiltworld  
71,000 6 times/yr  
House of White Birches  
306 East Parr Rd.  
Berne, IN 46711
45. Woodman of the World Mag.  
466,625 Monthly  
1700 Farnam St.  
Omaha, NE 68102
46. California Senior Citizens  
69,000 Monthly  
4805 Alta Canyada Road  
La Canada, CA 91011
47. Sew News  
235,000 Monthly  
P.O. Box 1790 - News Plaza  
Peoria, IL 61656
48. American Motorcyclist 176,169  
Monthly  
33 Collegeview Road  
Westerville, OH 43081
49. American Collector's Journal  
50,926 Bi-Monthly  
P.O. Box 407  
Kewanee, IL 61443
50. Shooting Times 196,441  
Monthly  
News Plaza  
PO Box 1790  
Peoria, IL 61656
51. 58 Dog Fancy  
135,320 Monthly  
2401q Beverly Blvd.  
Los Angeles, CA 90057
52. Guns Magazine 205,619  
Monthly  
Publisher's Development

	591 Camino de la Reina, Ste. 200		
	San Diego, CA 92108		
53.	National History		
	511,463 Monthly		
	488 Madison Ave.		
	New York, NY 10022		
54.	Baseball Digest	297,490	
	Monthly		
	Trump Card Marketing		
	222 Cedar Lane		
	Teaneck, NJ 07666		
55.	Farm Journal		
	730,145 13 times/yr		
	230 W. Washington Sq.		
	Philadelphia, PA 19106-3599		
56.	The Farmer		
	118,459 21 times/yr		
	1999 Shepard Rd.		
	St. Paul, MN 55116		
57.	Finescale Modelier		
	77,748 Bimonthly		
	1027 N. 7th St.		
	Milwaukee, WI 53233		
58.	Trains		
	91,749 Monthly		
	1027 N. 7th St.		
	Milwaukee, WI 53233		
59.	Good Old Days	72,500	
	Monthly		
	House of White Birches		
	306 East Parr Rd.		
	Berne, IN 46711		
60.	Dune Buggies & Hot VW's	107,302	
	Monthly		
	2950-A7 Airway Ave.		
	Costa Mesa, CA 92626		
61.	American Handgunner Magazine	179,751	
	6 times/yr		
	Publishers Development		
	591 Camino de la Reina, Ste. 200		
	San Diego, CA 92108		
62.	Fur-Fish-Fame		
	172,847 Monthly		
	2878 E. Main Street		
	Columbus, OH 43209		
63.	Changing Times	1,372,867	
	Monthly		
	1729 H St., N.W.		
	Washington, DC 20006		
64.	B'NAI B'RITH JEWISH MONTHLY	171,457	Monthly
	823 United Nations Plaza		
	New York, NY 10017		
65.	QST		
	161,442 Monthly		
	225 Main Street		
	Newington, CT 06111		
66.	Railroad Model Craftsman		
	72,315 Monthly		
	Carsten's Publications, Inc.		
	P.O. Box 700		
	Newton, NJ 07860		

67.	Power Boat 83,224 11 times/yr 15917 Strathern St. Van Nuys, CA 91406	
68.	Saturday Evening Post 6 times/yr 1100 Waterway Blvd. Indianapolis, IN 46202	500,000
69.	Successful Farming 575,686 14 times/yr Locust at 17th Des Moines, IA 50336	
70.	Hunting Monthly 8490 Sunset Blvd. Los Angeles, CA 90069	311,715
71.	Michigan-Out-Of-Doors Monthly 2101 Wood St. Lansing, MI 48912	101,066
72.	The Rotarian 510,000 Monthly 1560 Sherman Ave. Evanston, IL 60201	
73.	Car and Driver 900,691 Monthly 1515 Broadway New York, NY 10036	
74.	Organic Gardening 1,188,335 Monthly 33 E. Minor St. Emmanus, PA 18098	
75.	Country Music City News Monthly 50 Music Square West, 6th Floor Nashville, TN 37203-3246	500,000
76.	Bowling 6 times/yr 5301 South 76th Street Greendale, WI 53129-0500	131,351
77.	Motor Trend 738,964 Monthly 8490 Sunset Blvd Los Angeles, CA 90069	
78.	Soldiers of Fortune 105,000 Monthly P.O. Box 693 Boulder, CO 80306	
79.	W.C. - Cross Stitch 72,851 Bimonthly 306 East Parr Rd Berne, IN 46711	
80.	Equus 138,011 Monthly 656 Quince Orchard Rd. Gaithersburg, MD 20878	
81.	Our Sunday Visitor 115,000 Weekly 200 Noll Plaza Huntington, IN 46750	
82.	W.C.- Home Cooking	

	68,265	Monthly	
	306 East Parr Road		
	Berne, IN 46711		
83.	Flower and Garden		
	4,171,000	6 times/yr	
	700 West 47th. St., Suite 310		
	Kansas City, MO 64112		
84.	Full Cry		
	33,955	Monthly	
	Gault Publications		
	P.O. Box 10		
	Boody, IL 62514		
85.	American Cage-Bird Mag.		40,000
	Monthly		
	One Glamore Court		
	Smithtown, NY 11787		
86.	Prorodeo		
	26,567	Bi-weekly	
	101 Prorodeo Dr.		
	Colorado Springs, CO 80919		
87.	Football Digest		
	203,182	10 times/yr	
	Trump Card Marketing		
	222 Cedar Lane		
	Teaneck, NJ 07666		
88.	Guns & Ammo		
	521,638	Monthly	
	8490 Sunset Blvd.		
	Los Angeles, CA 90063		
89.	Modern Photography		
	650,386	Monthly	
	825 Seventh Ave.		
	New York, NY 10019		
90.	Family Motor Coach Association		98,000
	Monthly		
	8291 Clough Pike		
	Cincinnati, OH 45244		
91.	The Highlander		38,000
	7 times /yr		
	P.O. Box 397		
	Barrington, IL 60011		
92.	Craft Art Needlework Digest		
	101,189	Bimonthly	
	P.O. Box 584		
	Lake Forest, IL 60045		
93.	Yankee		2,900,000
	Monthly		
	Yankee Publishing, Inc.		
	4850 Gaidrew Road		
	Alpharetta, GA 30201		
94.	National Speed Sport News		
	75,000	Weekly	
	P.O. Box 608		
	79 Chestnut Street		
	Ridgewood, NJ 07451-0608		
95.	National Review		240,000
	25 times/yr		
	150 E. 35 Street		
	New York, NY 10016		
96.	Collectors Mart		86,623
	6 times/yr		

	P.O. Box 12830	
	Wichita, KS 67277	
97.	Lapidary Journal	
	35,982 Monthly	
	P.O. Box 80937	
	San Diego, CA 92138	
98.	Easyriders	
	356,590 Monthly	
	28210 Dorothy Dr.	
	Agoura Hills, CA 91301	
99.	Video Review	
	450,001 Monthly	
	902 Broadway	
	New York, NY 10010	
100.	Basketball Digest	
	104,238 8 times/yr	
	Trump Card Marketing	
	222 Cedar Lane	
	Teaneck, NJ 07666	
101.	Winning! Newsletter	
	100,000 Monthly	
	5300 City Plex Tower	
	Jenks, OK 74037-5300	
102.	Teddy Bear and Friends	60,743
	6 times/yr	
	900 Fredrick Street	
	Cumberland, MD 21502	
103.	Women's Circle	49,100
	6 times/yr	
	House of White Birches	
	306 East Parr Road	
	Berne, IN 46711	
104.	Shutterbug	
	90,000 Monthly	
	PO Box F	
	Titusville, FL 32781	
105.	High Fidelity	
	300,172 Monthly	
	825 7th Ave.	
	New York, NY 10019	
106.	Skiing	
	440,370 7 times/yr	
	1515 Broadway	
	New York, NY 10036	
107.	Soundings	
	105,606 Monthly	
	33 Pratt St.	
	Essex, CT 06426	
108.	Motorcyclist	
	209,757 Monthly	
	8490 Sunset Blvd.	
	Los Angeles, CA 90069	
109.	Horoscope	
	104,200 Monthly	
	245 Park Ave.	
	New York, NY 10167	
110.	Practical Homeowner	
	708,504 9 times/yr	
	33 E. Minor St.	
	Emmaus, PA 18048	
111.	Bassmaster	



	530,757	Monthly	
	One Bell Rd.		
	Montgomery, AL 36117		
112.	Antique Monthly		66,243
	Monthly		
	P.O. Drw. 2		
	Tuscaloosa, AL 35402		
113.	Pipe Smoker		
	25,000	Monthly	
	P.O. Box 22085		
	Chattanooga, TN 37422		
114.	Banana Republic Trips Mag.		
	300,000	Monthly	
	One Harrison St.		
	San Francisco, CA 94105		
115.	Camping & RV Magazine		20,000
	Monthly		
	P.O. Box 337		
	Iola, WI 54945		
116.	Women's Household		
	39,200	Quarterly	
	House of White Birches		
	306 East Parr Road		
	Berne, IN 46711		
117.	Body, Mind & Spirit		
	152,000	Monthly	
	P.O. Box 701		
	Providence, RI 02401		
118.	Cycle		
	373,398	Monthly	
	1515 Broadway		
	New York, NY 10036		
119.	Today's Chicago Woman		125,000
	Monthly		
	200-West Superior, #400		
	Chicago, IL 60610		
120.	Lottery Player's Magazine		
	180,127	Monthly	
	321 New Albany Rd.		
	Moorestown, NJ 08057		
121.	Video		
	407,050	Monthly	
	460 W. 34th St		
	New York, NY 10001		
122.	Archery		113,023
	Monthly		
	319 Barry Ave. Suite 101		
	Wayzata, MN 55391		
123.	The Quarter Horse Journal		
	67,664	Monthly	
	2701 I-40 East P.O. Box 200		
	Amarillo, TX 79168		
124.	W.C. - Country Needlecraft		
	44,508	Monthly	
	306 East Parr Rd.		
	Berne, IN 46711		
125.	Modern Drummer		78,400
	Monthly		
	870 Pomton Ave.		
	Cedar Grove, NJ 07009		
126.	International Travel News		

	26,109	Monthly	
	2120 28th St.		
	Sacramento, CA	95818	
127.	Worldradio		
	25,833	Monthly	
	2120 28th St.		
	Sacramento, CA	95818	
128.	Kiwanis		279,249
	Monthly		
	3636 Woodview Trace		
	Indianapolis, IN	46268	
129.	Power and Motoryacht		135,319
	Monthly		
	1234 Summer St.		
	Stamford, CT	06905	
130.	Modern Electronics		
	75,241	Monthly	
	76 N. Broadway		
	Hicksville, NY	11801	
131.	Sail		
	175,212	Monthly	
	100 First Ave		
	Charlestown, MA	02129	
132.	The Lutheran		
	1,083,181	Monthly	
	426 S. Fifth Ave.		
	Minneapolis, MN	55448	
133.	Americana		
	325,186	Monthly	
	29 W. 38th St.		
	New York, NY	10018	
134.	The Horse Trader		
	28,370	Monthly	
	P.O. Box 728		
	Middlefield, OH	44062	
135.	Passenger Train Journal		
	16,151	Monthly	
	P.O. Box 6128		
	Glendale, CA	91205	
136.	Runner's World		451,512
	Monthly		
	33 E. Minor St.		
	Emmaus, PA	18049	
137.	The Log		46,960
	Monthly		
	P.O. Box 89309		
	San Diego, CA	92318	
138.	Harvard Magazine		
	186,677	Monthly	
	7 Ware St.		
	Cambridge, MA	02138	
139.	Horse Illustrated		
	135,609	Monthly	
	25025 I-45 North, Suite 390		
	Spring, TX	77380	
140.	Trailer Boats		
	72,501	Monthly	
	20700 Belshaw Ave.		
	Carson, CA	90746	
141.	Skip		
	35,400	Monthly	

	P.O. Box 404	
	Bala Cynwyd, PA 19004	
142.	Trailblazer	
	94,572 Monthly	
	15375 S.E. 30th Place	
	Bellevue, WA 98007	
143.	Saltwater Sportsman	
	128,521 Monthly	
	186 Lincoln St.	
	Boston, MA 02111	
144.	Midwest Outdoors	
	37,773 Monthly	
	111 Shore Dr.	
	Burr Ridge, IL 60521	
145.	Golf	
	912,157 Monthly	
	380 Madison Ave.	
	New York, NY 10017	
146.	Southern Outdoors	
	288,963 Monthly	
	P.O. Box 17915	
	Montgomery, AL 36141	
147.	Cats Magazine	
	129,332 Monthly	
	445 Merrimac Dr.	
	Port Orange, FL 32019	
148.	The Western Horseman	162.369
	Monthly	
	3850 N. Nevada Ave.	
	Colorado Springs, CO 80933	
149.	Guitar World	
	128,823 Monthly	
	1115 Broadway	
	New York, NY 10010	
150.	Mother Jones	
	183,864 Monthly	
	1633 Misson St.	
	San Francisco, CA 94103	
151.	Flying Models	
	27,073 Monthly	
	Box 700	
	Newtown, NJ 07860	
152.	Golf Digest	
	1,239,100 Monthly	
	5520 Park Ave.	
	Trumbull, CT 06611	
153.	Fishing World	
	341,215 6 times/yr	
	700 West 47th St., Suite 310	
	Kansas City, MO 64112	
154.	The Christian Herald	
	142,376 Monthly	
	40 Overlook Dr.	
	Chappaqua, NY 10514	
155.	UCLA Monthly	186,000
	Monthly	
	1633 Westwood Blvd., Ste 110	
	Los Angeles, CA 90024	
156.	Video Marketplace	
	140,000 Monthly	
	990 Grove St.	

157.	Evanston, IL 60201 The Owner Builder 66,150 Monthly 1516 Fifth St. Berkeley, CA 94710	
158.	Pennsylvania Sportsman Monthly P.O. Box 5196 Harrisburg, PA 17110	65,490
159.	Woodenboat 103,180 Monthly P.O. Box 78 Brooklyn, ME 04616	
160.	The Ensign 54,534 Monthly P.O. Box 31664 Raleigh, NC 27622	
161.	Small Boat Journal 57,103 Monthly Box 400 Bennington, VT 05201	
162.	Women's Sports and Fitness 300,708 Monthly 809 S. Orlando Ave., Ste H Winter Park, FL 32789	
163.	Dirt Bike 131,930 Monthly 10600 Sepulveda Blvd. Mission Hills, CA 91345	
164.	True West 32,939 Monthly P.O. Box 2107 Stillwater, OK 74076	
165.	Jazz Times 49,237 Monthly 8055 13th St., Suite 301 Silver Springs, MD 20910	
166.	Tours & Resorts Monthly 990 Grove St. Evanston, IL 60201	194,716
167.	Hockey Digest 103,506 Monthly Trump Card Marketing 222 Cedar Lane Teaneck, NJ 07666	
168.	Canoe 64,060 Monthly P.O. Box 3146 Kirkland, WA 98083	
169.	The Nation 79,978 Monthly 72 5th Ave New York, NY 10011	
170.	World Tennis 383,059 Monthly 3 Park Ave. New York, NY 10016	
171.	The BackStretch Monthly 19363 James Couzens Hwy.	25,380

	Detroit, MI 48235	
172.	Motor Boating and Sailing	
	141,463 Monthly	
	224 W. 57th St.	
	New York, NY 10019	
173.	Car Collector/Car Classics	
	31,318 Monthly	
	P.O. Box 28571	
	Atlants, GA 30328	
174.	Circus	
	281,842 Monthly	
	3 West 18th St.	
	New York, NY 10011	
175.	National Lampoon	
	250,002 Monthly	
	155 Avenue of the Americas	
	New York, NY 10013	
176.	Total Health	
	71,010 Monthly	
	6001 Topanga Canyon Rd.	
	Woodland Hills, CA 91367	
177.	Bestways	
	161,815 Monthly	
	P.O. Box 2028	
	Carson City, NV 89702	
178.	Writer's Digest	
	220,196 Monthly	
	1507 Dana Ave.	
	Cincinnati, OH 45207	
179.	Boating	188,057
	Monthly	
	1515 Broadway	
	New York, NY 10036	
180.	Horticulture	
	178,508 Monthly	
	20 Park Plaza, Suite 1220	
	Boston, MA 02116	
181.	New Age	151,730
	Monthly	
	342 Western Ave.	
	Brighton, MA 02135	
182.	N.J. Hunting and Fishing	
	15,000 Monthly	
	P.O. Box 100	
	Somerdale, NJ 08083	
183.	Dog World	
	64,732 Monthly	
	29 North Wacker Dr.	
	Chicago, IL 60606	
184.	Outdoor America	43,422
	Monthly	
	1701 N. Ft. Meyer Dr.	
	Arlington, VA 22209	
185.	Sport Fishing	
	109,384 Monthly	
	809 South Orlando Ave.	
	Winter Park, FL 32789	
186.	Old West	
	28,385 Monthly	
	P.O. Box 2107	
	Stillwater, OK 74076	

187.	Treasure 22,679 Monthly 6745 Adobe Rd. 29 Palms, CA 92277	
188.	Petersen's Photo Magazine 283,010 Monthly 8490 Sunset Blvd. Los Angeles, CA 90069	
189.	Fine Woodworking 296,773 Monthly P.O. Box 355 Newtown, CT 06470	
190.	Old House Journal 97,948 6 times/yr 69th & Seventh Ave. Brooklyn, NY 11217	
191.	Snowmobile 419,478 Monthly 319 Barry Ave.S., Suite 101 Wayzata, MN 55391	
192.	Lost Treasure 41,423 Monthly P.O. Box 937 Bixby, OK 74008	
193.	Cycle News 60,700 Monthly 2201 Cherry Ave. Long Beach, CA 90806	
194.	Yachting 136,028 Monthly 1515 Broadway New York, NY 10036	
195.	The N.Y. Review of Books 114,234 Monthly 250 E. 57th St. New York, NY 10107	
196.	American Film 133,232 Monthly 3. E. 54th St. New York, NY 10022	
197.	Pure-Bred Dogs Amer. Kennel Monthly 51 Madison Ave. New York, NY 10010	53,950
198.	Knitting Digest 6 times/yr House of White Birches 306 East Parr Rd. Berne, IN 46711	25,600
199.	American Photographer Monthly 1515 Broadway New York, NY 10036	254,107
200.	Saturday Review Monthly 214 Massachusetts Ave. N.E. Washington, DC 20002	200,000
201.	Human Events 36,695 Monthly 422 1st St. S.E. Washington, DC 20037	

202.	American Business	
	104,772	Monthly
	1775 Broadway	
	New York, NY 10019	
203.	Classic Toy Trains	
	10,000	Monthly
	11027 North Seventh St.	
	Milwaukee, WI 53233	
204.	Auto Racing Digest	
	44,124	Monthly
	Trump Card Marketing	
	222 Cedar Lane	
	Teaneck, NJ 07666	
205.	Soccer Digest	
	27,929	Monthly
	Trump Card Marketing	
	222 Cedar Lane	
	Teaneck, NJ 07666	
206.	High Technology Business	
	203,678	Monthly
	214 Lewis Wharf	
	Boston, MA 02110	
207.	The Western Boatman	
	23,961	Monthly
	20700 Belshaw Ave.	
	Carson, CA 90746	
208.	Archaeology	
	105,146	Monthly
	15 Park Row	
	New York, NY 10038	
209.	Motorcross Action	
	92,257	Monthly
	10600 Sepulveda Blvd.	
	Mission Hills, CA 91345	
210.	Threads	125,913
	Monthly	
	P.O. Box 355/63 S. Main St.	
	Newtown, CT 06470	
211.	UTNE Reader	
	67,449	Monthly
	2732 West 43rd St.	
	Minneapolis, MN 55410	
212.	Yoga Journal	
	44,819	Monthly
	2054 University Ave.	
	Berkley, CA 94704	
213.	Practical Horseman	
	55,752	Monthly
	Gum Tree Corner	
	Unionville, PA 19375	
214.	Dirt Wheels	
	88,632	Monthly
	10600 Sepulveda Blvd.	
	Mission Hills, CA 91345	
215.	Hounds and Hunting	
	9,697	Monthly
	Box 372	
	Bradford, PA 16701	
216.	Backpacker	
	172,111	Monthly
	1515 Broadway	

217.	New York, NY 10036 Bowling Digest Monthly Trump Card Marketing 222 Cedar Lane Teaneck, NJ 07666	104,159	
218.	Darkroom Photography 8 times/yr 9021 Melrose Ave. Los Angeles, CA 90069	70,508	
219.	Miniature Collector 23,602 Quarterly 170 5th Ave. New York, NY 10010		
220.	Gun Dog Bimonthly 1901 Bell Ave., Suite 4 Des Moines, IA 50315	62,973	
221.	BLUMS FARMERS ALMANAC 3301 Healy Dr. S.W. Winston-Salem, NC 27103	100,000	Annually
222.	The Magazine Antiques Monthly 980 Madison Ave. New York, NY 10021	60,578	
223.	Hispanic Business 107,875 Monthly 360 S. Hope Ave., Suite C. Santa Barbara, CA 93105		
224.	Linn's Stamp News 74,082 Weekly P.O. Box 29 Sidney, OH 45365		
225.	Selling 100,000 Quarterly PO Box 570 Clearwater, FL 34617-9862		
226.	Mustang Monthly Monthly Dobbs Publishing Group, Inc. 3816 Industry Boulevard Lakeland, FL 33811		
227.	Super Ford Monthly Dobbs Publishing Group, Inc. 3816 Industry Boulevard Lakeland, FL 33811		
228.	Corvette Fever Monthly Dobbs Publishing Group, Inc. 3816 Industry Boulevard Lakeland, FL 33811		
229.	Mopar Muscle 6 times/yr Dobbs Publishing Group, Inc. 3816 Industry Boulevard Lakeland, FL 33811		



Colleges have tremendous circulation of their bulletins and newspapers. Their price per run on advertising is very inexpensive for the number of prospects reached. Believe it or not, multi-millions of dollars are spent by students each semester.

If you have a new idea or product, run a test ad in one or more of the publications and see if you get results. Usually a less expensive 1" ad will let you know whether your product or service is going to pull or not. If your test ad proves successful, then you may want to go to a larger ad or even a display-type ad and increase your coverage to include more bulletins and newspapers.

Another way to distribute your product is to advertise for a student on campus to represent you on a commission basis and be your dealer. Usually there are several students who would love to have the opportunity to make some extra money. A good way to find the right person is by resume qualifications or actually calling them on the phone and talking it over with them. Finding the key person could result in many easy dollars in your pocket.

In the past, some of the biggest sellers on campus have been radio and stereo equipment, music tapes, car repair manuals, study aids, self-improvement booklets and tapes, school fads of various natures, and any kind of special or different steins for drinking beer. Any new idea or product you may be able to come up with could be very advantageous to you in the form of increased sales.

Advertising in college bulletins and newspapers gains more results during the first three days of the week. When ordering advertising, it is best to specify that your ad appear in the Monday-Wednesday editions. Thursday is okay, but Friday is definitely out; minds seem to drift toward plans for the weekend, leaving little interest for purchasing.

Write to the enclosed list of publications. Ask for their rates and circulation. All of them will respond to your needs and many of them will call you and discuss whatever plans you have for advertising. They will work with you to try to see that you get the most response from any type ad you may run.

We sincerely hope this report helps you in gaining sales and is an instrument in the growth of your company. You cannot beat the circulation of prospects reached for the dollars spent. Have a good year!

#### 50 LEADING COLLEGE BUYING POWERS

University of Oregon  
Daily Emerald  
P.O. Box 3159  
Eugene, OR 97403  
Circ. 10,500 daily

University of Arkansas  
Arkansas Traveler

Hill Hall 304  
Fayetteville, AR 72701  
Circ. 8000 bi-weekly

University of Mississippi  
Daily Mississippian  
University, MS 38677  
Circ. 10,000 daily

University of Washington  
The Daily  
144 Communications DS-20  
Seattle, WA 98195  
Circ. 18,000 daily

University of Texas at Arlington  
P.O. Box 19038  
Arlington, TX 76019-0038  
Circ. 18,000 daily

University of Virginia  
The Cavalier Daily  
Newcomb Hall  
Charlottesville, VA 22901  
Circ. 13,000 daily

Illinois State University  
Vidette  
Normal, IL 61761  
Circ. 22,000 daily

Ball State University  
Muncie, IN 47306  
Circ. 14,000 daily

Florida State University  
P.O. Box U-7001  
Tallahassee, FL 32306  
Circ. 46,000 daily

Jackson State University  
Jackson, MS 39217  
Circ. unknown

Indiana State University  
The Indiana Statesman  
Tirey Memorial Union Annex, ISU  
Terre Haute, IN 47809  
Circ. 14,000 daily

West Texas State University  
College of Arts and Science  
Canyon, TX 79016  
Circ. unknown

Texas Southern University  
3100 Cleburne Avenue  
Houston, TX 77004  
Circ. 15,000 weekly

Spelman College

Spelman Spotlight  
P.O. Box 40  
Atlanta, GA 30314  
Circ. unknown

Wright State University  
The Daily Guardian  
Dayton, OH. 45435  
Circ. 4,000 daily

University of South Florida  
Oracle  
Let 472, Arts and Letters Bldg.  
Tampa, FL 33620  
Circ. 25,000 daily

Ohio State University  
The Lantern  
281 Journalism Bldg.  
242 W. 18th St.  
Columbus, OH 43210-1107  
Circ. 31,000 daily

Montana State University  
Exponent  
Strand Union Bldg.  
Bozeman, MT 59715  
Circ. 8,000 bi-weekly

Texas Tech. University  
P.O. Box 4080  
Lubbock, TX 79409  
Circ. 17,000 daily

University of Florida  
The Alligator  
P.O. Box 14257  
Gainesville, FL 32604  
Circ. 43,000 daily

Iowa University  
111 Communications Center  
Iowa City, IA 52242  
Circ. 20,000 daily

Bowling Green State University  
The BG News  
106 University Hall  
Bowling Green, OH 43403  
Circ. 11,000 daily

Morgan State University  
Spokesman  
Cold Spring Ln. & Hillen Rd.  
Baltimore, MD 21239  
Circ. 4,000 bi-weekly

East Texas State University  
The East Texan  
Box D - ET Station  
Commerce, TX 75428

Circ. 7,000 bi-weekly

San Francisco State University  
Dept. of Journalism  
1600 Holloway Ave.  
San Francisco, CA 94132  
Circ. 10,000 weekly

Auburn University  
The Auburn Plainsman  
1st Floor, Foy Union Bldg.  
Auburn, AL 36849  
Circ. 18,500 weekly

Winona State University  
Winonian  
Winona, MN 55987  
Circ. unknown

Washington University  
Student Life  
St. Louis, MO 63130  
Circ. 8,300 weekly

University of Tulsa  
Collegian  
600 So. College  
Tulsa, OK 74104  
Circ. 4000 weekly

University of Maryland  
Diamondback  
College Park, MD 20742  
Circ. 21,000 daily

University of Kentucky  
The Kentucky Kernel  
210 Journalism Bldg.  
Lexington, KY 40506  
circ. 18,000 daily

Boston College  
The Heights  
Chestnut Hill, MA 02167  
Circ. 9,500 weekly

Seton Hall University  
The Setonian  
S. Orange, NJ 07079  
Circ. 10,500 Weekly

Pace University  
Pace Plaza  
New York, NY 10038  
Circ. unknown

University of New Mexico  
Student Publications  
P.O. Box 20  
Albuquerque, NM 87131  
Circ. 30,000 weekly

University of Wisconsin  
Union Box 88  
P.O. Box 413  
Milwaukee, WI 53201  
Circ. unknown

University of Tennessee  
5 Communications Bldg.  
Knoxville, TN 37996-0314  
Circ. 15,000 daily

Cal State University, Long Beach  
SS/PA-010  
1250 Bellflower Blvd.  
Long Beach, CA 90840  
Circ. 20,000 daily

Northwestern University  
N.O. News  
360 Huntington Ave.  
Boston, MA 02115  
Circ. 21,000 weekly

University of Wisconsin, Stout  
The Stoutonia  
Menomonie, WI 54751  
Circ. 7,000 weekly

Texas Christian University  
The Daily Skiff  
P.O. Box 32929  
Circ. 5,500 monthly

University of Wisconsin, La Crosse  
Racquet  
La Crosse, WI 54601  
Circ. 5,000 weekly

Washington State University  
The Daily Evergreen  
P.O. Box 2008 C.S.  
Pullman, WA 99164  
Circ. 20,000 daily

San Jose State University  
Spartan Daily  
San Jose, CA 95192  
Circ. 15,000 daily

Portland State University  
Vaanguard  
P.O. Box 751  
Portland, OR 97207  
Circ. 17,000 bi-weekly

Valdosta State College  
The Spectator  
VSC Box 194  
Valdosta, GA 31698  
Circ. unknown

Kent State University  
Daily Kent Stater  
Kent, OH 44242  
Circ. unknown

Georgia State University  
Signal  
Box 695 University Plaza  
Atlanta, GA 30303  
Circ. 10,000 weekly

Arizona State University  
State Press  
15 Matthews Center  
Tempe, AZ 85287  
Circ. 40,000 daily

#### WRITE ATTENTION GETTING ADVERTISEMENTS

The most important aspect of any business is selling the product or service. Without sales, no business can exist for very long.

All sales begin with some form of advertising. To build sales, this advertising must be seen or heard by potential buyers, and cause them to react to the advertising in some way. The credit for the success, or the blame for the failure of almost all ads, reverts back to the ad itself.

Generally, the "ad writer" wants the prospect to do one of the following:

a) Visit the store to see and judge the product for himself, or immediately write a check and send for the merchandise being advertised.

b) Phone for an appointment to hear the full sales presentation, or write for further information which amounts to the same thing.

The bottom line in any ad is quite simple: To make the reader buy the product or service. Any ad that causes the reader to only pause in this thinking, to just admire the product, or to simply believe what's written about the product - is not doing its job completely.

The "ad writer" must know exactly what he wants his reader to do, and any that does not elicit the desired action is an absolute waste of time and money.

In order to elicit the desired action from the prospect, all ads are written according to a simple "master formula" which is:

- 1) Attract the "attention" of your prospect.
- 2) "Interest" your prospect in the product

- 3) Cause your prospect to "desire" the product
- 4) Demand "action" from the prospect

Never forget the basic rule of advertising copywriting: If the ad is not read, it won't stimulate any sale; if it is not seen, it cannot be read; and if it does not command or grab the attention of the reader, it will not be seen!

Most successful advertising copywriters know these fundamentals backwards and forwards. Whether you know them already or you're just now being exposed to them, your knowledge and practice of these fundamentals will determine the extent of your success as an advertising copywriter.

#### CLASSIFIED ADS

Classified ads are the ads from which all successful businesses are started. These small, relatively inexpensive ads, give the beginner an opportunity to advertise his product or service without losing his shirt if the ad doesn't pull or the people don't break his door down with demands for his product. Classified ads are written according to all the advertising rules. What is said in a classified ad is the same that's said in a larger, more elaborate type of ad, except in condensed form.

To start learning how to write good classified ads, clip ten classified ads from ten different mail order type publications - ads that you think are pretty good. Paste each of these ads onto a separate sheet of paper.

Analyze each of these ads: How has the writer attracted your attention - what about the ads keeps your interest - are you stimulated to want to know more about the product being advertised - and finally, what action must you take? Are all of these points covered in the ad? How strongly are you "turned on" by each of these ads?

Rate these ads on a scale of one to ten, with ten being the best according to the formula I've given you. Now, just for practice, without clipping the ads, do the same thing with ten different ads from a Wards or Penney's catalog. In fact, every ad you see from now on, quickly analyze it, and rate it somewhere on your scale. If you'll practice this exercise on a regular basis, you'll soon be able to quickly recognize the "Power Points" of any ad you see, and know within your own mind whether an ad is good, bad or otherwise, and what makes it so.

Practice for an hour each day, write the ads you've rated 8, 9

and 10 exactly as they've been written. This will give you the "feel" of the fundamentals and style necessary in writing classified ads.

Your next project will be to pick out what you consider to be the ten "worst" ads you can find in the classifieds sections. Clip these out and paste them onto a sheet of paper so you can work on them.

Read these ads over a couple of times, and then beside each of them, write a short comment stating why you think it's bad: Lost in the crowd, doesn't attract attention - doesn't hold the reader's interest - nothing special to make the reader want to own the product - no demand for action.

You probably already know what's coming next, and that's right. Break out those pencils, erasers and scratch paper - and start rewriting these ads to include the missing elements.

Each day for the next month, practice writing the ten best ads for an hour, just the way they were originally written. Pick out ten of the worst ads, analyze those ads, and then practice rewriting those until they measure up to doing the job they were intended to do.

Once you're satisfied that the ads you've rewritten are perfect, go back into each ad and cross out the words that can be eliminated without detracting from the ad. Classified ads are almost always "finalized" in the style of a telegram.

EXAMPLE: I'll arrive at 2 o'clock tomorrow afternoon, the 15th. Meet me at Sardi's. All my love, Jim.

EDITED FOR SENDING: Arrive 2pm - 15th - Sardi's. Love, Jim.

CLASSIFIED AD: Save on your food bills! Reduced prices on every shelf in the store! Stock up now while supplies are complete! Come on in today, to Jerry's Family Supermarkets!

EDITED FOR PUBLICATION: Save on Food! Everything bargain priced! Limited Supplies! Hurry! Jerry's Markets!

It takes dedicated and regular practice, but you can do it. Simply recognize and understand the basic formula - practice reading and writing the good ones - and rewriting the bad ones to make them better. Practice, and keep at it, over and over, every day - until the formula, the idea, and the feel of this kind of ad writing becomes second nature to you. This is the ONLY WAY to gain expertise in writing good classified ads.



## DISPLAY ADVERTISEMENTS

A display or space ad differs from a classified ad because it has a headline, layout, and because the style isn't telegraphic. However, the fundamentals of writing the display or space ad are exactly the same as for a classified ad. The basic difference is that you have more room in which to emphasize the "master formula."

Most successful copywriters rate the headline and/or the lead sentence of an ad as the most important part of the ad, and in reality, you should do the same. After all, when you ad is surrounded by hundreds of other ads, and information or entertainment, what makes you think anyone is going to see your particular ad?

The truth is, they're not going to see your ad unless you can "grab" their attention and entice them to read all of what you have to say. Your headline, or lead sentence when no headline is used, has to make it more difficult for your prospect to ignore or pass over, than to stop and read your ad. If you don't capture the attention of your reader with your headline, anything beyond is useless effort and wasted money.

Successful advertising headlines - in classified ads, your first three to five words serve as your headline - are written as promises, either implied or direct. The former promises to show you how to save money, make money, or attain a desired goal. The latter is a warning against something undesirable.

EXAMPLE OF A PROMISE: Are You Ready To Become A Millionaire - In Just 18 Months?

EXAMPLE OF A WARNING: Do You Make These Mistakes In English?

In both of these examples, I've posed a question as the headline. Headlines that ask a question seem to attract the reader's attention almost as surely as a moth is drawn to a flame. Once he's seen the question, he just can't seem to keep himself from reading the rest of the ad to find out the answer. The best headline questions are those that challenge the reader; that involve his self esteem, and do not allow him to dismiss your question with a simple yes or no.

You'll be the envy of your friends is another kind of "reader appeal" to incorporate into your headline whenever appropriate. The appeal has to do with basic psychology: everyone wants to be well thought of, and consequently, will read into the body of your ad to find out how he can gain the respect and accolades of his friends.

Wherever and whenever possible, use colloquialisms or words that are not usually found in advertisements. The idea is to shock or shake the reader out of his reverie and cause him to take notice of your ad. Most of the headlines you see day in and day out, have a certain sameness with just the words rearranged. The reader may see these headlines with his eyes, but his brain fails to focus on any of them because there's nothing different or out of the ordinary to arrest his attention.

EXAMPLE OF COLLOQUIALISM: Are You Developing a POT BELLY?

Another attention-grabber kind of headline is the comparative priced magazine headline: Three For Only \$3, Regularly \$3 Each! Still another of the "tried and proven" kind of headlines is the specific question: Do You Suffer From These Symptoms. And of course, if you offer a strong guarantee, you should say so in your headline: Your Money Refunded, If You Don't Make \$100,00 Your First Year.

How To headlines have a very strong basic appeal, but in some instances, they're better used as book titles than advertising headlines. Who Else wants in on the finer things - which your product or service presumably offers - is another approach with a very strong reader appeal. The psychology here being the need of everyone to belong to a group - complete with status and prestige motivations.

Whenever, and as often as you can possible work it in, you should use the word "you" in your headline, and throughout your copy. After all, your ad should be directed to "one" person, and the person reading your ad wants to feel that you're talking to him personally, not everyone who lives on his street.

Personalize, and be specific! You can throw the teachings of your English teachers out the window, and the rules of "third person, singular" or whatever else tends to inhibit your writing. Whenever you sit down to write advertising copy intended to pull the orders - sell the product - you should picture yourself in a one-on-one situation and "talk" to your reader just as if you were sitting across from him at your dining room table. Say what you mean, and sell HIM on the product your offering. Be specific and ask him if these are the things that bother him - are these the things he wants - and he's the one you want to buy the product...

The layout you devise for your ad, or the frame you build around it, should also command attention. Either make it so spectacular that it stands out like lobster at a chili dinner, or so

uncommonly simple that it catches the reader's eye because of its very simplicity. It's also important that you don't get cute with a lot of unrelated graphics and artwork. Your ad should convey the feeling of excitement and movement, but should not tire the eyes or disrupt the flow of the message you are trying to present.

Any graphics or artwork you use should be relevant to your product, it's use and/or the copy you have written about it. Graphics should not be used as artistic touches, or to create an atmosphere. Any illustrations with your ad should compliment the selling of your product, and prove or substantiate specific points in your copy.

Once you have your reader's attention, the only way you are going to keep it, is by quickly and emphatically telling him what your product will do for him.

Your potential buyer doesn't care in the least how long it's taken you to produce the product, how long you have been in business, nor how many years you've spend learning your craft. He wants to know specifically how he is going to benefit from the purchase of your product.

Generally, his wants will fall into one of the following categories: Better health, more comfort, more money, more leisure time, more popularity, greater beauty, success and/or security.

Even though you have your reader's attention, you must follow through with an enumeration of the benefits you can gain. In essence, you must reiterate the advantages, comfort and happiness he'll enjoy - as you have implied in your headline.

Mentally picture your prospect - determine his wants and emotional needs - put yourself in his shoes, and ask yourself: If I were reading this ad, what are the things that would appeal to me? Write your copy to appeal to your reader's wants and emotional needs/ego cravings.

Remember, it's not the "safety features" that have sold cars for the past 50 years - nor has it been the need of transportation - it has been, and almost certainly always will be the advertising writer's recognition of people's wants and emotional needs/ego cravings. Visualize your prospect, recognize his wants and satisfy them. Writing good advertising copy is nothing more or less than knowing "who" your buyers are; recognizing what he wants; and then telling him how your product will fulfill each of those wants. Remember this because it's one of the "vitally important" keys to writing advertising copy that does the job you intend for it to do.

The "desire" portion of your ad is where you present the facts of your product; create and justify your prospect's conviction, and cause him to demand "a piece of the action" for himself.

It's vitally necessary that you present "proven facts" about your product because survey results show that at least 80% of the people reading your ad - especially those reading it for the first time - will tend to question its authenticity.

So, the more facts you can present in the ad, the more credible your offer. As you write this part of your ad, always remember that the more facts about the product you present, the more product you'll sell. People want facts as reasons, and/or excuses for buying a product - to justify to themselves and others, that they have not been "taken" by a slick copywriter.

It's like the girl who wants to marry the guy her father calls a "no good bum." Her heart - her emotions - tell her yes, but she needs to nullify the seed of doubt lingering in her mind - to rationalize her decision to go on with the wedding.

In other words, the "desire" portion of your ad has to build belief and credibility in the mind of your prospect. It has to assure him of his good judgment in the final decision to buy - furnish evidence of the benefits you have promised - and afford him a "safety net" in case anyone should question his decision to buy.

People tend to believe the things that appeal to their individual desires, fears and other emotions. Once you have established a belief in this manner, logic and reasoning are used to support it. People believe what they "want" to believe. Your reader "wants" to believe your ad if he has read it through this far - it is up to you to support his initial desire.

Study your product and everything about it - visualize the wants of your prospective buyers - dig up the facts, and you'll almost always find plenty of facts to support the buyer's reasons for buying.

Here is where you use results of tests conducted, growing sales figures to prove increasing popularity, and "user" testimonials or endorsements. It's also important that you present these facts - test results, sales view, and not that of the manufacturer.

Before you end this portion of your ad and get into your demand for action, summarize everything you've presented thus far. Draw a mental picture for your potential buyer. Let him

imagine owning the product. Induce him to visualize all of the benefits you have promised. Give him the keys to seeing himself richer, enjoying luxury, having time to do whatever he would like to do, and with all of his dreams fulfilled.

This can be handled in one or two sentences, or spelled out in a paragraph or more, but it is the absolute ingredient you must include prior to closing the sale. Study all the sales presentations you have ever heard - look at every winning ad - this is the element included in all of them that actually makes the sale for you. Remember it, use it, and don't try to sell anything without it.

As Victor Schwab puts it so succinctly in his best selling book, *How To Write A Good Advertisement*: Every one of the fundamentals in the "master formula" is necessary. Those sitting across from him at your dining people who are "easy" to sell may perhaps be sold even if some of these factors are left out, but it's wiser to plan your advertisement so that it will have a powerful impact upon those who are "hardest" to sell. For, unlike fact-to-face selling, we cannot in printed advertising come to a "trial close" in our sales talk - in order to see if those who are easier to sell will welcome the dotted line without further persuasion. We must assume that we are talking to the hardest ones - and that the more thoroughly our copy sells both the hard and the easy, the better chance we have against the competition for the consumer's dollar - and also the less dependent we will be upon the usual completely ineffective follow through on our advertising effort which later takes place at the sales counter itself.

**ASK FOR ACTION! DEMAND THE MONEY!**

Lots of ads are beautiful, almost perfectly written, and quite convincing - yet they fail to ask for or demand action from the reader. If you want the reader to have your product, then tell him so and demand that he send his money now. Unless you enjoy entertaining your prospects with your beautiful writing skills, always demand that he complete the sale now, by taking action now - by calling a telephone number and ordering, or by writing his check and rushing it to the post office.

Once you have got him on the hook, land him! Don't let him get away!

Probably, one of the most common and best methods of moving the reader to act now, is written in some form of the following:

All of this can be yours! You can start enjoying this new way of life immediately, simply

by sending a check for \$XX! Don't put it off, then later wish you had gotten in on the ground floor! Make out that check now, and "be IN on the ground floor!" Act now, and as an "early-bird" buyer, we'll include a big bonus package - absolutely free, simply for acting immediately! You win all the way! We take all the risk! If you are not satisfied, simply return the product and we will quickly refund your money! Do it now! Get that check on its way to us today, and receive the big bonus package! After next week, we won't be able to include the bonus as a part of this fantastic deal, so act now! The sooner you act, the more you win!

Offering a reward of some kind will almost always stimulate the prospect to take action. However, in mentioning the reward or bonus, be very careful that you don't end up receiving primarily, requests for the bonus with mountains of requests for refunds on the product to follow. The bonus should be mentioned only casually if you are asking for product orders; and with lots of fanfare only when you are seeking inquiries.

Too often the copywriter, in his enthusiasm to pull in a record number of responses, confuses the reader by "forgetting about the product," and devoting his entire space allotted for the "demand for action" to sending for the bonus. Any reward offered should be closely related to the product, and a bonus offered only for immediate action on the part of the potential buyer.

Specify a time limit. Tell your prospect that he must act within a certain time limit or lose out on the bonus, face probably higher prices, or even the withdrawal of your offer. This is always a good hook to get action.

Any kind of guarantee you offer always helps you produce action from the prospect. And the more liberal you can make your guarantee, the more product orders you will receive. Be sure you state the guarantee clearly and simply. Make it so easy to understand that even a child would not misinterpret what you are saying.

The action you want your prospect to take should be easy - clearly stated - and devoid of any complicated procedural steps on his part, or numerous directions for him to follow.

Picture your prospect, very comfortable in his favorite easy chair, idly flipping through a magazine while "half-watching" TV. He notices your ad, reads through it, and he is sold on your product. Now what does he do?

Remember, he's very comfortable - you have "grabbed" his attention, sparked his interest, painted a picture of him enjoying a new kind of satisfaction,

and he is ready to buy...

Anything and everything you ask or cause him to do is going to disrupt this aura of comfort and contentment. Whatever he must do had better be simple, quick and easy!

Tell him without any ifs, ands or buts, what to do - fill out the coupon, include your check for the full amount, and send it in to us today! Make it as easy for him as you possibly can - simply and direct. And by all means, make sure your address is on the order form he is supposed to complete and mail in to you - your name and address on the order form, as well as just above it. People sometimes fill out a coupon, tear it off, seal it in an envelope and don't know where to send it. The easier you make it for him to respond, the more responses you'll get!

There you have it, a complete short course on how to write ads that will pull more orders for you - sell more of your product for you. It's important to learn "why" ads are written as they are - to understand and use, the "master formula" in your own ad writing endeavors.

By conscientiously studying good advertising copy, and practice in writing ads of your own, now that you have the knowledge and understand what makes advertising copy work, you should be able to quickly develop your copywriting abilities to produce order-pulling ads for your own products. Even so, and once you do become proficient in writing ads for your own products, you must never stop "noticing" how ads are written, designed and put together by other people. To stop learning would be comparable to shutting off from the rest of the world.

The best ad writers are people in touch with the world in which they live. Everytime they see a good ad, they clip it out and save it. Regularly, they pull what makes them good, and why they work. There's no school in the country that can give you the same kind of education and expertise so necessary in the field of ad writing. You must keep yourself up-to-date, aware of, and in-the-know about the other guy - his innovations, style, changes, and the methods he is using to sell his products. On-the-job training - study and practice - that's what it takes - and if you have got that burning ambition to succeed, you can do it too!

#### QUESTIONS & ANSWERS

##### 1. WHAT'S THE MOST PROFITABLE WAY TO USE CLASSIFIEDS...

Classifieds are best used to build your mailing list of qualified prospects. Use classified to offer a free catalog, booklet or report relative to your product

line.

2. WHAT CAN YOU SELL "DIRECTLY" FROM CLASSIFIEDS...

Generally, anything and everything, so long as it doesn't cost more than five dollars which is about the most people will pay in response to an offer in the classifieds. These types of ads are great for pulling inquiries such as: Write for further information; Send \$3, get two for the price of one; Dealers wanted, send for product info and a real money-maker's kit!

3. WHAT ARE THE BEST MONTHS OF THE YEAR TO ADVERTISE...

All twelve months of the year! Responses to your ads during some months will be slower in accumulating, but by keying your ads according to the month they appear, and a careful tabulation of your returns from each keyed ad, you will see that steady year round advertising will continue to pull orders for you, regardless of the month it's published. I've personally received inquiries and orders from ads placed as long as 2 years previous to the date of the response!

4. ARE MAIL ORDER PUBLICATIONS GOOD ADVERTISING BUYS...

The lease effective are the ad sheets. Most of the ads in these publications are "exchange ads," meaning that the publisher of ad sheet "A" runs the ads of publisher "B" without charge, because publisher "B" is running the ads of publisher "A" without charge. The "claimed" circulation figures of these publications are almost always based on "wishes, hopes and wants" while the "true" circulation goes out to similar small, part-time mail order dealers. Very poor medium for investing advertising dollars because everybody receiving a copy is a "seller" and nobody is buying. When an ad sheet is received by someone not involved in mail order, it is usually given a cursory glance and then discarded as "junk mail."

Tabloid newspapers are slightly better than the ad sheets, but not by much! The important difference with the tabloids is in the "helpful information" articles they try to carry for the mail order beginner. A "fair media" for recruiting dealers or independent sales reps for mail order products, and for renting mailing lists, but still circulated amongst "sellers" with very few buyers. Besides that, the life of a mail order tab sheet is about the same as that of your daily newspaper.

With mail order magazines, it depends on the quality of the publication and its business concepts. Some mail order magazines are nothing more than expanded ad sheets, while others - such as BOOK BUSINESS MART - strive to help the opportunity seekers with on-going advice



and tips he can use in the development and growth of his own wealth-building projects. Book  
Business Mart is not just the fastest growing publication in the mail order scene today; it's also  
the first publication in more than 20 years to offer real help anyone can use in achieving his own  
version of "The American Dream" of building one's own business from a  
"shoestring beginning"  
into a multi-million dollar empire!

#### 5. HOW CAN I DECIDE WHERE TO ADVERTISE MY PRODUCT...

First of all, you have to determine who your prospective buyers are. Then you do a little  
bit of market research. Talk to your friends, neighbors and people at random who might fit this  
profile. Ask them if they would be interested in a product such as yours, and then ask them which  
publications they read. Next, go to your public library for a listing of the publications of this type  
from the Standard Rate & Data Service catalogs.

Make a list of the addresses, circulation figures, reader demographics and advertising  
rates. To determine the true costs of your advertising and decide which is the better buy, divide  
the total audited circulation figure into the cost for a one inch ad:  
\$10 per inch with a publication  
showing 10,000 circulation would be 10,000 into \$10 or 10¢ per thousand. Looking at the  
advertising rates for Book Business Mart, you would take 42,500 into \$15 for an advertising rate  
of less than THREE TENTHS OF ONE CENT PER THOUSAND. Obviously, your best buy in this  
case would be Book Business Mart because of the lower cost per thousand.

Write and ask for sample copies of the magazines you have tentatively chosen to place  
your advertising in. Look over their advertising - be sure that they don't or won't put your ad in the  
"gutter" which is the inside column next to the binding. How many other mail order type ads are  
they carrying - you want to go with a publication that's busy, not one that has only a few ads. The  
more ads in the publication, the better the response the advertisers are getting, or else they  
wouldn't be investing their money in that publication.

To "properly" test your ad, you should let it run through at least three consecutive issues  
of any publication. If your responses are small, try a different publication. Then, if your  
responses are still small, look at your ad and think about rewriting it for greater appeal, and  
pulling power. In a great many instances, it's the ad and not the publication's pulling power that's  
at fault!

A Resource Guide for  
Inventors and Innovative  
Small Businesses

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## Foreword- How to Use this Guide

Both the individual inventor and the small, hightechnology firm face major obstacles during process of creating, develop ing, and commercializing an innovation-of turning ideas into dollars. Ideas into Dollars is aimed at making those obstacles less intimidating. By providing you as inventors and small business managers ~,with information on the variety of govern ment and private organizations, programs, and publications dealing with invention and innovation, the SBA hopes to in crease your chances of commercial success.

The contents of this publication are organized to be quickly accessible: the process of innovation, along with the appropriate resources, is laid out in successive stages from invention through commercialization. The resources listed in this Guide should help you as an inventor or small business owner or manager to mix effectively the four essenffal ingredients necessary for turning ideas into dollars: 1) determining technical feasibility, 2) assessing marlcet demand, 3) identifying capital sources, and 4) developing overall management com petence.

We suggest you skim this Guide, determine the stage you are in, and then "dive into" the wealth of information available from the resources listed. As advocates for small business, we understand the complications faced by an inventor or in novative firm when dealing with Government Agencies. The purpose of writing Ideas into Dollars is to help you deal effec tively with all the complexities, blind alleys, and frustrations that are frequently a part of working with Federal Agencies, corporations and other larger organizations. By explaining whom to contact and what procedures to follow, this Guide should help the innovation process flow somewhat more smoothly.

## Acknowledgements

Several individuals in both Management Assistance and Ad vocacy were principal contributors. Barry Unger, of Innovation Support in Arlington, Mass., a Presidential Exchange Executive at SBA during 1979\_80, was the publication's Technical and Science Advisor and Jerry Feigen, Advocacy's Associate Advocate for Capital Formation and Venture Capital, was the liaison between Management Assistance and Advocacy. Dr. Bruce Whiting, Director

of Program Delivery  
for Management Assistance, was the originator of the project and Gregory  
Dielcks, Writer/Editor,  
Support Services Branch, was the Project Director.

Your Help Requested

Readers who are aware of any additional resources, whether publications,  
programs, or  
organizations, which would be of use to inventors or small,  
high technology firms, are requested to  
please send a full description of them to:

Ideas Into Dollars U.S. Small Business Administration (MA/SSB) 1441 L  
Street, NW Washington,  
D. C. 20416

The information contained in this publication was current at the time of  
writing. However, over  
time, programs change, publications come and go, organizations are  
restructured, and offices  
move. While every effort has been made by SBA to assure accuracy, some  
of the specific  
information may become dated.

Invention Stage

Idea Generation Phase

Idea generation has two interrelated components: the psychology of  
creativity, and the  
organizational encouragement and promotion of new product ideas.

The thrust of this Guide is not to describe the nature of creativity,  
although creativity is the basis  
of invention. For those interested in studying creativity, there are  
many publications on its  
psychology. Most university and large local libraries will reference  
them. The American  
Psychological Association, 1200 17th Street, N.W., Washington DC 20036,  
(202) 833-7600,  
publishes a broad range of journals and indexes. It welcomes inquiries.  
The Creative Education  
Foundation, Inc., 1300 Elmwood Avenue, Buffalo, NY 14222, located at  
the University State  
College, has an extremely extensive library of reference materials on  
creativity. For further information write or call (716) 878-6221.

This Guide also does not presume to tell the small, high technology firm  
or the individual  
scientist, engineer, or technician how to arrive at new ideas, whether  
individually or  
organizationally. This Guide, however, does provide detailed advice on  
the resources available  
for use during the process of turning ideas into dollars—once the initial

idea has been created.

### Idea Evaluation Phase

Idea evaluation is the first major step after a concrete, detailed idea has been developed. This is a critical phase since every following phase requires the investment of more time and money. The purpose of an idea evaluation is to determine the overall technical and commercial feasibility of an idea-what its future potential actually is.

These evaluation activities seek to determine whether the fledgling invention is a marked improvement over its competition; whether it is likely to be commercially viable; what the probable demand for it will be; who could produce it, and how it would be distributed. The ultimate purpose here is to arrive at the decision to go ahead to the commercialization stage, to redesign the invention, or to kill the project altogether.

There are both private, money-making organizations and public or quasi-public organizations like innovation centers that can assist the inventor at this stage. The money-making organizations include invention brokers and consultants, some of whom are in the business not only of bringing the inventor and buyer together-an aspect of commercialization-but also of helping evaluate the technical and commercial aspects of the invention or idea. Some work for a set fee. Others work on a contingent fee basis. This means that while the technical/commercial evaluation may be free, they will receive a percentage of the profits-but only if there are profits. These private organizations are discussed in more detail in the Commercialization Stage, see page 7.

On the non-profit side, several types of organizations can help evaluate inventor's ideas, both technically and commercially but, unlike invention brokers, they are either free or charge a nominal fee. You should not become discouraged if a negative evaluation is received. Since there is no standardized evaluation system, try someplace else. However, any limitations cited by the evaluation reviews should be considered by you when determining ways to improve upon your invention. Among these public and quasi-public evaluation organizations are: universities, Government Agencies, inventors' associations, and corporations (since they generally do not charge to develop a promising idea.)

**University Evaluation Centers** Many universities have formal programs specifically designed to assist individuals with ideas for new or improved products or services. Nearly every state has a

least one college or university that can provide research and development facilities to technically oriented companies or individuals. Listed below are the principal university evaluation programs whose purpose it is to promote innovation, invention, and product development.

MIT Enterprise Forum  
Alumni Center  
77 Massachusetts Avenue  
Cambridge, MA 02319  
(617) 253~240

A non-profit organization affiliated with Massachusetts Institute of Technology. Provides entrepreneurs~officers of technically oriented businesses with one\_time (with occasional follow\_ups available] evening panel discussions or "clinics" organized around a review of their startup or ongoing business, its plans, and the critical problems or issues it faces. Panels consist of 5 to 6 successful entrepreneurs and experts from industry, academia, and government who are recruited specifically to address the technological and business issues of the case at hand. The effort is made to have a panel broad enough to give a full perspective on the characteristics and opportunities of the entrepreneur's business. The nature of problems that companies have sought advice on has ranged from organizational strategy, to marketing, to financing, to managerial style and succession, to staffing, to increasing profitability, to requests for a general review of company operations or a review of a new company's business plans. Most of the approximately 30 companies served so far have found the "clinic" experience helpful. Sessions currently are held in the New York and Boston areas. Special arrangements, however, can be made to accommodate those companies based in other locations. A fee of \$100 to defray expenses is charged to companies who are accepted for presentation to the Enterprise Forum.

The M.I.T. Enterprise Forum also runs occasional other activities such as a day\_long program with workshops on Financing Technology-Based Organizations. Businesses~entrepreneurs seeking assistance should contact Paul E. Johnson (Executive Director), Arthur C. Parthe Jr., Stanley R. Rich, or Barry Unger at the above address.

The University of Kansas Center for Research, Inc. 2291 Irving Hill Road  
Campus West  
Lawrence, KS 66045

The Center offers an interdisciplinary approach to solving technical problems companies often encounter when developing new products. Those interested should write the Center brief explanation of their needs.

Carnegie\_Mellon University  
Center for Entrepreneurial Development  
4516 Henry Street  
Pittsburgh, PA 15213  
(412) 621\_3940

This Center aids inventors and business owners in overcoming problems related to new product development. Provides technical advice and idea evaluation.

Massachusetts Institute of Technology  
Innovation Center  
Room 33\_111  
Cambridge, MA 02139  
(617) 253\_6947

The Center evaluates and screens innovations. Emphasizes idea evaluation and start up problem assessment. Students are heavily involved in this Center's programs.

University of Utah Utah Innovation Center Office of Business 391G So. Chiteta Way Salt Lake City, UT 84112 (801) 581\_3433 Assists inventors with development of their ideas. Screens and evaluates new product ideas and provides assistance in writing business plans.

California State University at Fresno  
Bureau of Business Research and Service  
Fresno, CA 93740  
(209) 487\_2352

Conducts research on small business problems. Provides consulting services for small businesses.

Industrial Technology Research and Development Foundation  
(ITRAD)  
P.O. Box 1335  
132 No. 12th  
Durant, OK 74701  
(405) 924\_5094  
A federally funded, non\_profit, Oklahoma State University affiliated evaluation center supporting south\_central United States. Performs idea evaluations and commercial feasibility analyses.

Center for Private Enterprise and Entrepreneurship  
Hankamer School of Business  
Suite 308  
Baylor University  
Waco, TX 76703  
817) 755\_3766

Offers an Innovation Evaluation service aimed at determining commercial feasibility. A nominal \$50 fee is required.

Center for New Business Executives Innovation Center P. O. Box 12793

Research Triangle Park,  
NC 27709 (919) 549\_8193 An independent, state\_affiliated organization,  
closely associated with  
the University of North Carolina. Provides  
training and management assistance to new and potential entrepreneurs.

Wisconsin Innovation Service Center     \_\_\_ A Service of the University of  
Wisconsin Small  
Business Development Center

402 McCutchan  
University of Wisconsin  
Whitewater, WI 53190  
(414) 472\_1365

For a \$75 fee, performs an extensive preliminary commercial feasibility  
analysis.

Center for Innovation and Entrepreneurial Development 209 Classroom  
Building University of  
California Santa Cruz, CA 95064 (408) 429\_2980

Provides credit and non\_credit seminars and practice sessions on idea  
evaluation and invention  
management.

The Small Business Administration's Division of Management Assistance,  
1441 L Street, NW,  
Washington, DC 20416, spon sors a nationwide, university\_based Small  
Business Develop ment  
Center program. These Centers provide a wide range of management  
assistance to inventors  
and small, high technology firms, including idea evaluation. Appendix 9  
lists these Centers and  
their phone numbers. Contact the Center in your area for more  
information.

Not all evaluation centers respond immediately; so, as an in ventor, do  
not become discouraged if  
your letters are not always answered. Perseverance is important.

Government Evaluation Offices National Bureau of Standards, Institute of  
Applied Technology,  
Office of Energy\_Related Inventions (OERI), Department of Commerce,  
Washington, DC 20234,  
(202) 921\_1000.

The NBS Energy\_Related Invention Evaluation Program aims at encouraging  
innovation in  
developing non\_nuclear technology. The program evaluates all promising  
energy related  
inventions. NBS does not offer grant assistance but rather acts as a  
screening and referral  
agency for the Depart ment of Energy (DOE) which does provide funding.  
Interested  
energy\_oriented inventors may write to OERI for a complete information  
packet containing the  
appropriate application forms and a full description of their evaluation  
process. The DOE grant  
program is discussed in the Government Grant Pro grams section of the



booklet, see page 9. It should be mentioned that this NBS evaluation program is a lengthy process which recommends about 11/2 percent of the submissions to WE. WE, however, funds nearly all those recommended.

NBS's Office of Energy-Related Inventions also has an Inventor Information Resources Center pilot project. Three public libraries, Boston Public Library, Sunnyvale (CA) Public Library, and Price Gilbert Public Library (Atlanta, GA) are to act as depositories for and access points to a wide range of computer accessible data, instructional and technical information. These libraries are also Patent Depositories. Contact NBS for more information.

The Small Business Administration is funding three Innovation Centers to help inventors and small, high-technology firms develop and market their innovations. These Centers are similar to the University Evaluation Centers but offer a much wider range of services. The SBA Centers not only can provide engineering, design, and testing assistance, they also offer management assistance in such areas as market research and planning, production planning, personnel management, financial accounting systems development, and venture capital source analysis. These services span the entire invention commercialization continuum. Each Center has a different orientation. For more details contact:

Innovation Center Commercial Credit Management Corporation 300 St. Paul Place  
Baltimore, MD 21202

This Center emphasizes high-technology products like electronics.

Center for Innovation  
PO Box 3809  
Butte, MT 59701  
(406) 494-6100

The emphasis here is on new products and inventions related to energy, agriculture, and mining.

Golden State Energy Center  
Bldg. 1055  
Fort Cronkhite  
Sausalito, CA 94965  
(415) 561-7692

This Center works primarily with San Francisco-based firms in the area of renewable energy products and processes. The Center works closely with the Department of Energy, and other Federal and State Agencies.

Inventors' Associations Inventors' Associations provide advice on a new

product development,  
idea evaluation, etc. They frequently publish newsletters so inventors  
can keep in touch with each  
other and with the new trends in engineering design. They also advertise  
inventions. Listed below  
are some of these associations. You can use these associations to talk  
with people "who have  
gone through it all before" and can give advice on other sources of  
help.

American Society of Inventors  
134 Narberth Avenue  
Room 101  
Narberth, PA 19072

California Inventors' Council  
Box 2096  
Sunnyvale, CA 94087

Central Florida Inventors' Club  
2511 Edgewater Drive  
Orlando, FL 32804

Inventors' Assistance League  
345 West Cypress  
Glendale, CA 91204

Inventors of California/National Innovation Workshop P.O. Box 158 Rheem  
Valley, CA 94570

Inventors' Workshop International Box 251, Tarzana, CA 91356; and 32\_22  
92nd Street Queens,  
N.Y. 11369

Minnesota Inventors' Congress  
Box 71  
Redwood Falls, MN 56283

Mississippi Society of Scientists & Inventors Box 2244 Jackson, MS 39205

Oklahoma Inventors' Congress  
Box 53043  
Oklahoma City, OK 73162

Technology Transfer Society  
11720 W. Pico Boulevard  
Los Angeles, CA 90064

Corporations Many corporations, due to legal complications among other  
reasons, make it their  
policy not to review ideas coming from the outside-at least the  
likelihood is remote. However, if  
you have a well developed idea and are looking for a larger company to  
evaluate, manufacture,  
and/or sell it, then you should consult reference publications like  
Thomas' Register of  
Manufacturers, Dun & Bradstreet directories, MacRae's Blue Book, for the  
names, addresses,  
phone numbers and product orientations of the various companies.

To submit ideas to companies not specifically oriented to handle

inventions, you may find useful a publication by the American Bar Association's Section of Patent, Trademark & Copyright Law entitled, "Submitting an Idea." It describes the usual procedures involved in submitting an idea to a company. Copies are available for a nominal fee from:

Circulation Department  
American Bar Association  
1155 East 60th Street  
Chicago, IL 60637

Publications on Idea Evaluation See: Books section, page 13, for materials on Invention Management.

Guide to Invention and Innovation Evaluation, Gerald G. Udell, Michael F. O'Neill and Kenneth G. Baker. GPO. Superintendent of Documents, Government Printing Office, Washington, DC 20402. \$3.50. Stock Number 038 000 00411\_5.

The Lightbulb, Inventors' Workshop International, Box 251, Tarzana, CA 91356.

#### Commercialization Stage

The Commercialization Stage Phases include Protection and Legal Assistance, Financial Assistance, Management Assistance, and Production and Sales Assistance.

#### Protection and Legal Assistance Phase

Now that the invention has passed through the Invention Stage, its design and commercial potential should be clear. If you have not already begun to do so, the time is now to consider how best to protect your new product or process. You should also now investigate the legal aspects of getting your invention produced and distributed. What will be your legal relationship to the entity producing your new product? Will you have a licensing arrangement with an established company? Will you form a joint venture with an established company? Will you go into business for yourself, or simply sell your invention to someone who has production, marketing and distribution facilities?

Let's first discuss protecting your invention once the final design has been determined. Many private organizations help inventors with patent and invention protection matters and make referrals to attorneys specializing in these matters. The following Organizations can provide you with important information on patent procedures, ownership rights and

trade secrets.

Private Patent and Copyright Organizations American Patent Law  
Association (APLA) 2001  
Jefferson Davis Highway Suite 203 Arlington, VA 22202 (703) 521\_1680

This is an association of patent lawyers. It publishes the APLA Bulletin  
and a quarterly Journal.  
The APLA acts as an advertising and referral agency for patent  
attorneys and those who need  
their services.

Institute for Invention and Innovation 85 Irving Street P.O. Box 436  
Arlington, MA 02174 (617)  
646~093

Publishes Copyright Management and Invention Management.

Licensing Executive Society (LES) Department LES 20501 Ford Road  
Dearborn, MI 48128 (313)  
271\_1500

Publishes LES Nouvelles, a quarterly journal.

Nation Patent Council, Inc.  
Suite 301, Crystal Plaza 1  
2001 Jefferson Davis Highway  
Arlington, VA 22202

The Council members principally come from the patent sections of  
corporations. It publishes a  
journal entitled Patent Trends, which covers cases heard before the US  
Court of Customs and  
Patent Appeals. The judgments of this court are final unless reviewed by  
the Supreme Court on a  
Writ of Certiorari.

Patent Office Society  
Box 2089  
Eads Station  
Arlington, VA 22202

(703) 557\_3955

Publishes both a monthly Newsletter and a Journal.

United Inventors and Scientists of America 14431 Chase Street Panorama  
City, CA 91402 (213)  
988\_9320

Publishes the UISA Newsletter and the List of Inventions Available for  
Licensing.

Federal Patent and Trademark Office For the invention that is  
patentable, the Patent and  
Trademark Office is the official agency where this is legally executed.  
Written correspondence  
should be sent to Patent and Trademark Office, Washington, DC 20231 or  
phone (703)  
557\_3158.

The Patent Office provides several services for the inventor, in addition to patent protection. First, it has a Document Disclosure Program which permits the certified storage of papers for up to two years. This certified storage not only keeps safe important papers but also provides evidence of the date of the conception of inventions.

Second, before an inventor can obtain a valid patent, a search of pending patents must be made. The staff of the Patent Office will assist the inventor in this search, which can be done by going to the Search Room, Crystal Plaza, 2021 Jefferson Davis Highway, Arlington, Virginia. There are also 29 Depository Libraries in the U.S. They keep complete files of all U.S. patents. See Appendix 1 for a listing. A search can be done at any of these libraries if more convenient.

Third, an official roster of all registered practitioners who prepare and prosecute patent applications for inventors is available (see: Government Publications below).

Fourth, for a small fee, the patented invention can be advertised, in the Patent Office's official Gazette, as being available for licensing or sale. The Gazette is widely circulated among manufacturers, research companies, and business owners. A Gazette entry includes the patent number, the name of the invention, and the inventor's name and address. And fifth, every February, in conjunction with National Inventors' Week, an inventors' exposition is sponsored. Write to the Patent Office for complete information.

In addition to these five Government patent services, an important new law has been enacted. PL9-517 now allows small businesses to retain title (ownership) to an invention created with the help of Federal funds. So today, if a small business develops a patentable product or process while being funded by a National Science Foundation grant, for example, that firm can patent and profit from its invention.

Government Publications on Patents and Protection The U.S. Department of Commerce, Patent and Trademark Office, Washington, DC 20231, publishes the following booklets.

For information on obtaining them, write or call (7-3) 557-3158.

Patents and Inventions: An Informal Aid for Inventors.

The Disclosure Document Program.

Questions and Answers About Patents.

Attorneys and Agents Registered for Practice before the U.S. Patent Office.

Official Gazette of the U.S. Patent Office.

Technology Assessment and Forecast.

Patents and Government Developed Inventions.

General Information Concerning Patents.

Patent and Trademark Office Notices.

The National Technical Information Service of the Department of Commerce, is the central source for the public sale of government sponsored research, development, and engineering reports prepared by Federal Agencies or contractors. NTIS has on\_line search, bibliography and hard copy production capabilities. An especially useful NTIS publication for high technology firms is Government Inventions Available for Licensing. For full information about NTIS write: NTIS, 5285 Port Royal Road, Springfield, VA 22161 or call (703) 487\_4600.

The Small Business Administration offers two free publications on idea protection-MA 6.005 Introduction to Patents and SBB 90 New Product Ideas. Request copies from SBA, P.O. Box 15434, Ft. Worth, TX 76119.

Nongovernment Publications on Patents and Protection Abernathy, David and Wayne Knipe. Ideas, Inventions and Patents. Pioneer Press, P.O. Box 76025, Atlanta, GA 30328.

Bush, George P. and Robert H. Dreyfuss, editors. Technology and Copyright: Sources and Materials. Lomond Publications, P.O. Box 88, Mt. Airy, MD 21771.

Grosswirth, Marvin. The Mechanics Illustrated Guide to How to Patent and Market Your Own Invention. New York David McKay Co., 1978.

Jones, Stacy V. The Inventors Patent Handbook. The Deal Press, 750 Third Avenue, New York, N.Y. 10017.

Pressman, David R. Patent It Yourself! How to Protect and Market Your Inventions. New York McGraw\_Hill, 1979.

Taylor, Clarence R. How to be a Successful Inventor Patenting, Protecting, Marketing, and Selling Your Invention. Hicksville, NY: Exposition Press, 1972.

Patent Licensing Gazette/Technology World. Technical Research Associates, Inc., Willow Grove, PA 19090.

Financial Assistance Phase

Funding is critical to the continued development of an invention, new

product idea, or new method of doing something. The resources identified in this section can help you as an in

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ventor or small firm in several ways: by supplying the funds needed to bring an invention into commercial production (venture capital companies, investment bankers, lenders, etc.), by negotiating for the inventor with these financial sources (brokers), or by giving grants for the continued development of an already well thought out idea (Government grants.) Grants should not be confused with procurement. The next section of this publication, Production and Sales, deals with Government procurement; here we are discussing grant programs only.

Venture Capital Organizations Venture capital is another name for the funding needed to start a new business (based on your invention) or expand on existing one (again, based on an invention or new product idea). Traditional lenders like banks and savings and loan companies frequently resist becoming financially involved in such risky undertakings. However, there are several types of venture capital organizations that thrive on the uncertainties of starting a business. These organizations usually want their equity investment (as opposed to a straight loan) to be easily convertible to cash at some future date, and they will take a much more active role in managing the new or expanded business than traditional lenders since they may now own some of your common stock or a share of your business in return for the loan. There are several principal sources of venture capital:

1) Venture Capital Companies privately or publically held businesses;

2)

4)

Small Business Investment Companies (SBIC's~SBA licensed investment firms whose purpose is equity and risk, long term capital lending. For more information on SBICs, ask your SBA field office for SBIC Financing for Small Business, OPC\_13;

Large Corporations;

Investment Bankers and Bank Trust Departments\_in re cent years more emphasis has been placed on venture capital funding by banks. Check with your local Chamber of Commerce, SBA or Department of Commerce field of fice, or your local banker for further information;

- 5) Insurance/Pension Plan Funding\_probably not of too much use for direct assistance as they lend to the lenders but worth investigating if you need a large sum; and
- 6) Public Funding\_the traditional sale of stock ownership through the public equity market.

To grant venture capital funding, these lenders will require from you a solid business plan. These organizations, it should be remembered, are interested in funding promising inventions or products, not in evaluating or developing ideas. So you will need a well thought out plan which describes the general nature of your new product, the structure of your business, the market for your product. its competitive superiority alongwith your production, sales and distribution plans, including revenue, costs, and profit projections. All these are required as a basis for your loan negotiation.

There are several listings of venture capital companies. One of these is published annually in the December issue of Ven~ure Magnzine, entitled "Venture Capital Directory." Copies can be

obtained by writing Venture Magazine, Special Projects Department, 35 West 45th Street, New York, NY 10036, phone (212) 840\_5580. There is a nominal charge for the listing. Two recent books with extensive listings of venture capital com panies, their addresses, phone numbers, product orientation, and so forth, might also be useful. One is a Guide to Venture Capital Sources (5th edition), Stanley E. Pratt, editor, 1981, Capital Publishing Corporation, Two Laurel Ave., P.O. Box 348, Wellesley Hills, MA 02181. The other is entitled Planning and Financing Your New Business: A Guide to Venture Capital, John McKiernan, 1978, Technology Management, Inc., P.O. Box 230, Chestnut Hill, MA 02167.

There are also two national trade associations of venture capital companies. The National Venture Capital Association (NVCA), Suite 750, 1225 19th Street, N.W., Washington, DC 20036, (202) 659\_5756, is interested in stimulating the free flow of capital to new and growing small businesses. Inventors and innovative small firms may wish to ask NVCA for advice on venture capital matters. The NVCA membership list of venture capital companies also might be worth requesting. The Na tional Association of Small Business Investment



Companies (NAS81C), 618  
Washington Building, N.W., Washington, DC 20005, (202) 638\_3411,  
publishes a Membership  
Directory (of the SBA underwritten SBICs referred to earlier on page 8)  
giving company name,  
address, phone numbers and industry preference. The Directory costs  
\$1.00.

Government Grant Programs The Federal Government has a very complex  
system of grant  
programs. Nearly every Agency offers some kind of grant fun ding. In  
this section, coverage is  
limited to Project Grants, (research, technical assistance, training,  
unsolicited contrac tual  
agreements, etc.), Direct Payments, and Loan Assistance. Contracting for  
procurement of goods  
and services is covered in the Government Procurement Programs part of  
the Produc tion and  
Sales Phase. Appendix 2 provides a summary of how to apply for Federal  
grants. Some of the  
principal grant oriented publications and programs include:

#### National Science Foundation tNSF) Grants

The NSF, Publications and Grants Applications Office, 1800 G Street,  
N.W., Washington, DC  
20550, phone (202) 357\_7861, makes available several key publications  
which detail their own  
and other Agencies' R&D grant programs. They include the NSF Bulletin  
(monthly), the Guide to  
Programs, the Grant Policy Manual and the Small Business Guide to  
Federal R~D.

A key office, the one that publishes Small Business Guide to Federal  
R~D, is the Office of Small  
Business Research and Development. It acts as the r~xus between the  
scien tific/technological  
elements of the small business community and NSF grant and procurement  
programs. This is a  
very useful contact for high\_technology small firms and can describe  
many of the NSF programs  
such as the new Small Business Innovation Research Program. For complete  
informa tion on the  
activities of this office contact the Director, Small Business R&D  
Office, NSF, Room 1121,  
Washington, DC 20550, phone (202) 357\_7527.

The Engineering and Applied Science Directorate (EAS), publishes Program  
Solicitation for Small  
Business Innovation Resear~h, NSF 79\_59. This booklet describes the EAS  
grant pro gram  
aimed at supporting advanced research in the general areas of applied  
science and engineering  
(excluding product development, technical assistance, pilot\_plant  
development, clinical and  
weapons' research) that could have significant public benefit if  
successful. Initial grants are in the  
\$25,000 range, with more money possible at later stages. The Small  
Business Research and  
Development Office should be contacted for complete information on this  
program.

In addition to EAS Directorate programs, another key NSF grant program is the Appropriate Technology Program, which is aimed at strengthening the science base for appropriate technology development. For more information contact the Director, Appropriate Technology Program, Room 1108, NSF, 1800 G. Street, N.W., Washington, DC 20550, phone (202) 357\_7491.

#### Department of Energy Grants

Within Department of Energy, Washington, DC 20585, (202) 252\_5000, there are several grant\_type programs aimed at developing energy\_related technology. NSF's Small Business Guide to Federal R~D lists the DOE programs that relate to research and development. The following are some of the principal DOE grant programs:

The Appropriate Technology Small Grants Program funds projects that are of small scale, decentralized, and energy\_related. The major types of projects include: Concept Development where awards of up to \$10,000 are granted to develop new ways to simplify or streamline energy use; Development\_where up to \$50,000 is granted to test the new ideas; and Demonstration\_where up to \$50,000 is granted for actual use testing. It should be borne in mind that less than 5% of those inventors seeking grants actually are awarded them. For further information contact: DOE, Office of Inventions and Small Scale Technology, Appropriate Technology Small Grants Program, Room 6G040, 1000 Independence Avenue, S.W., Washington, DC 20585, phone (202) 252\_9104. Since this program is administered through the regional offices, the fastest response probably can be gotten by contacting your local DOE Regional Office. See Appendix 3 for a listing.

Another program sponsored by the Office of Inventions and Small Scale Technology of DOE provides the inventor with grants for continued research, development, modeling, hiring of consultants, etc. It is a part of the previously described NBS/DOE Energy\_Related Inventions Program. This Office considers grant requests only after a favorable evaluation by the National Bureau of Standards' Office of Energy Related Inventions. Therefore, to apply for these particular grants, do not contact DOE directly, go to the NBS first. NBS will thoroughly evaluate your invention and then forward your request to DOE if it is favorably evaluated. You should remember that only 10% of all evaluations by NBS are favorable. However nearly all of the favorable evaluations are funded by DOE. This NBS/DOE evaluation/grant program offers one time, one

year grants (\$80,000 average) to support non\_nuclear, energy\_related inventions. (Turn back to page 5 for information on the NBS evaluation program. For more information the DOE grant program, contact either NBS or call DOE at (202) 887\_8258.)

#### Department of Commerce Grants

The US Department of Commerce's Office of Minority Business Enterprise sponsors several Special Project programs. The Technology Commercialization Program, for example, promotes new, high\_technology, minority small business opportunities. For further information contact: OMBE, Department of Commerce, 14th Street between Constitution Avenue and E Street, N.W., Washington, DC 20230, phone (202) 377\_3024.

The National Oceanic Atmospheric Administration has a National Sea Grant Program that funds marine research. For further information contact: NOAA, National Sea Grant Program, 6010 Executive Blvd., Rockville, MD 20852, phone (301) 443\_8290.

The National Bureau of Standards offers grants for technical research and development on methods and approaches in the area of engineering and applied science. NBS' funds are granted by way of unsolicited proposals, that is, an unsolicited written offer by a business or individual to perform engineering and applied science research. Such proposals must contain a detailed description of an effort that will enhance NBS' research and development mission. It can not be an effort related to advertising or standard commercial product development. For further information ask for Guidelines for Preparation of Unsolicited Proposals from: National Bureau of Standards, Office Management Division, Technical Proposals Coordinator, Building 301, Room B126, Department of Commerce, Washington, DC 20234, phone (301) 921\_3521.

#### Department of Defense (DOD) Grants

DOD has a new program aimed at utilizing small, high technology firms to solve complex scientific/technical problems facing the national defense community. Phase I funding for preliminary R&D is up to \$50,000. Phase II funding for advanced development is up to \$500,000. Phase III consists of DOD production awards or commercial applications. For further information contact DOD, Director for Small Business and Economic Utilization Policy, Office of the Under Secretary of Defense for Research and Engineering, Rm 2A340, Pentagon, Washington, DC 20301.

Important Financial Assistance Publications There are several important publications for those

interested in learning more about the various sources of Federal financial assistance. The Catalog of Federal Domestic Assistance, Executive Office of the President, OMB, Washington, DC 20503, for sale by the Superintendent of Documents, GPO, Washington, DC 20402, is the basic reference tool needed to understand the entire Federal system of grants and financial assistance. (This book does not deal with procurement information.) The Catalog describes all the Federal programs of all Agencies, with programs cross-indexed by subject, purpose, name, functional classification, eligibility requirements, etc. Also detailed are the types of assistance available, how to apply for assistance, how to write proposals and other sources of information. The Catalog is available through GPO, at many State and local government offices, in Federal Agency field offices, and at major libraries.

The Small Business Administration, 1441 L Street, N.W., Washington, DC 20416, publishes many pamphlets useful to in-

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ventors and small businesses seeking financial assistance. Free copies can be ordered from SBA, P.O. Box 15434, Fort Worth, TX 76119. Refer to the specific title and number.

MA 1.001\_The ABC's of Borrowing  
MA 2.007\_Business Plan for Small Manufacturers  
MA 1.00~Venture Capital Primer for Small Business

Another useful SBA publication on financial assistance is entitled Small Business Guide to Federal Financial Assistance. Copies can be obtained by writing the Director, Office of Information, Bureau for Advocacy at the Washington, DC address or by calling (202) 653-6273.

The following SBA publications are sold by the Superintendent of Documents, Government Printing Office, Washington, DC 20402. (For current prices and mail order form, write: SBA, P.O. Box 15434, Fort Worth, TX 76119 and ask for SBA 115B, "For\_Sale Booklets".)

SBMS \_Small Business and Government Research and Development  
SBMS 39\_Decision Points in Developing New Products

Other key Federal financial assistance publications are:  
OM8 Circular Nos. A\_21, A\_95  
Parts I and III, A\_102, A\_110  
A\_111 and FMC 744  
Publications Office  
Office of Administration  
726 Jackson Place, N.W., Room G\_236  
Washington, DC 20503

Guide for the Submission of Research and Development Proposals by  
Individuals and  
Organizations Other than Educational Institutions Department of Energy  
Washington, DC 20585

Guidelines for the Preparation of Unsolicited Proposals  
Research Applied to National Needs Program  
National Science Foundation  
Washington, DC 20550

Treasury Circular 1082  
Department of Treasury  
Budget and Program Analysis, Room 2449  
Washington, DC 20220

United States Government Manual  
Superintendent of Documents  
U.S. Government Printing Office  
Washington, DC 20402

Sources of Funds for Solar Activities  
Center for Renewable Resources (Not governmental)  
1001 Connecticut Avenue, N.W., 5th Floor  
Washington, DC 20036  
(202) 466-880

NASA Grant Handbook (NGH) NASA Procurement Regulations (NAPR)  
Superintendent of  
Documents Government Printing Office Washington, D.C. 20402 (202) 783-  
3238

The Securities and Exchange Commission's Office of Small Business Policy  
offers several  
publications discussing the Federal securities laws small firms must  
comply with when raising  
capital through public security sales. Relevant publications include:  
Small Business, Capital  
Formation, and the Federal Securities Laws; S18; Rule 240 and 242;  
Regulation A; and Q ~ A:  
Small Business and the SEC. Single copies can be obtained by writing the  
Small Business Policy  
Office, 500 North Capitol Street, Washington, DC 20549. For multiple  
copies send requests to the  
Publications Office. The SEC phone number is (202) 272-2644.

State Government Sources of Information on Federal and State Grants  
There exists at the state  
level, a central source of information about Federal grants and grants  
awarded by States and  
localities. The State Central Information Reception Agency (SCIRA) is an  
office or unit of State  
government designated by the Governor to receive notification of grant  
awards issued under the  
provisions of Treasury Circular 1082. Federal Agencies are required to  
notify the appropriate  
SCIRA in each State of Federal financial assistance awarded, any  
subsequent related  
transactions, changes in the value or duration of a grant, or Federal  
grants awarded to States or  
localities. The SCIRA in each State is set up primarily to serve the

Governor and the legislature.  
The extent to which it is equipped to serve others such as local governments or the general public varies from State to State. See Appendix 4 for another computer based source of Federal grant information available in most States.

#### Management and Technica~ Assistance Phase

Invention Brokers and Consultants Whereas the major purpose of the venture capitalist is to lend money and obtain an equity holding in a company, invention brokers and consultants' principal role is to bring together a seller (inventor~ and a buyer. However, they also may supply expertise on new product development and financial manage ment, and some help fund the continued development and pro duction of new products.

Most brokers/consultants work solely on a contingent fee basis; that is, they receive a percentage of the revenues generated by the invention. If the new product produces no sales, they earn nothulg. Obviously, these organizations are very careful about what they will back and for how long.

Much as been written recently about the suspect business practices of some invention brokers. A word of caution should be mentioned: Some inventors have found themselves in dif ficulties when dealing with some brokers because the inven tors signed contracts calling for them to supply up\_front money. After the money is paid, very little financial or technical assistance is given, in some instances. Before signing any contract, it is strongly recommended that you consult with your attorney or banker.

If you have any questions as to the reputation of an invention broker, check with the Federal Trade Commission by writing: FTC, Bureau of Consumer Protection, 6th and Pennsylvania Avenue, N.W., Washington, DC 20580 or call (202) 523\_3844. Checking with your local Better Business Bureau or consumer groups might also be prudent.

Below is a listing of some of the major invention broker/con sultant organizations. For a much more extensive listing see: Consulting nnd Consulting Organizations Directory, 4th ed., Paul Wasserman and Janice McLean, editors, Gale Research Company, Book Tower, Detroit, MI 48226. Look under Field 82, New Ventures.

Batelle Development Corporation (BDC) 505 King Avenue Columbus, OH 43210 (614) 424\_6424/7446 BDC also runs a commercial feasibility analysis.

Business Growth Services General Electric Company 120 Erie Blvd., Room

380 Schenectady,  
NY 12305 (518) 385\_2577 General Electric's Business Growth Services  
department offers to  
innovative businesses new products and processes available for licensing  
or outright purchase. In  
Selected Business Ven tures and New Business Digest, GE lists their own  
and the pro ducts and  
processes of all other leading companies, laboratories, and universities  
that are available. These  
listings provide detailed information on licensing/purchasing ar  
rangements, market outlook,  
development status, and contacts. New Business Digest Annual provides  
the names, addresses,  
and phone numbers of many of the leading technology oriented businesses.

Arthur D. Little Enterprises Acorn Park Cambridge, MA 02140 (617) 864\_  
5770/2254 Arthur D.  
Little's Invention Management Group welcomes in ventions from outside  
sources. It provides a  
full range of (free) services to the inventor from detailed technical  
evaluations, to commercial  
potential assessments, to making licensing ar rangements. Arthur D.  
Little usually acquires the  
exclusive right to license an invention and negotiates all commercial  
agreements for the inventor.  
Request Invention Management and related publications if you want  
further information.

Control Data Corporation Technology and Information Services P.O. Box o  
HQV001 Minneapolis,  
MN 55440 (612) 853-3575/800\_328-1870 Toll Free

Technology and Information Services offers consulting, technology  
management and research  
services to assist business identify its opportunities. An integral part  
of these services is  
TECHNOTEC, a world wide, computer based, technology data base,  
accessible via telex, TRW,  
computer terminal, phone or

mail. A small firm can use the TECHNOTEC data base to search for needed  
technologies,  
available licenses, or joint ventures and can make their technologies  
and inventions available to  
other companies. There is a direct use fee for all computer time.  
Control Data's Technology and  
Information Services collects no fees or commissions from resultant  
business transactions.

Dr. Dvorkovitz & Associates  
P.O. Box 1748  
Ormond Beach, Florida 32074

Dr. Dvorkovitz & Associates is an international licensing firm which  
specializes in providing  
information in the field of technology exchange. Services include:  
InstanTechEx, which provides  
access to a data bank of products and processes from all technical  
fields which are available for  
license, joint venture and/or acquisition. The listings come from  
worldwide sources in industry,

government, universities and private inventors and may be stored in the data bank at no charge.

The potential licensee (seeker of technology) pays all fees pertaining to retrieval of information.

TechEx, a World Fair Technology Exchange, is an annual exhibition held at multiple sites whose

purpose is the transfer of products, processes, know\_how, etc. among participants Participation

is by attendance or by exhibiting in a booth, buyer office or inventor booth.

Minnesota Cooperation Office 965 Southgate Office Plaza 5001 W. 80th St. Bloomington, MN

55437 (612) 830\_1230 The Minnesota Cooperation Office (MCO) is a tax\_exempt, non\_profit

corporation. It is a private sector effort to create innovative, high\_growth companies. Directed

primarily at the future economic strength of the State of Minnesota, MCO offers its knowledge,

experience and contacts to help solve the problems of technology\_oriented, new businesses.

MCO assistance to entrepreneurs extends from an initial evaluation to the final draft of a business

plan. MCO also makes available to clients, its knowledge of business financing and its contacts

with major institutional sources of venture capital. Supporting organizations include: Arthur

Anderson & Co., Control Data Corp., Cargill Foundation, Honeywell, Inc., Minnesota Dept. of

Economic Development, Price Waterhouse & Co., R.C. Lilly Foundation and The Toro Company.

Product Resources International, Inc. 800 3rd Ave. New York, NY 10022 (212) 980\_8980

REFAC Technology Development Corporation 122 E. 42nd Street New York, NY 10017 (212)

687~741

Unirad Corporation 4765 Oakland Street Box 39002 Denver, CO 80239 (303) 371\_7400

Emphasis is on scientific instrument development.

University Patents, Inc.

2777 Summer Street

Stanford, CT 08905

(203) 325\_2285

SBA Management Assistance Programs The Small Business Administration's Management

Assistance Division has several programs useful at this stage of the invention process:

SCORE, the Service Corps of Retired Executives, is a free counseling service in which retired,

volunteer executives help small firms solve their technical and management problems.

ACE, the Active Corps of Executives, augments SCORE by providing more specialized expertise.



SBI, the Small Business Institute program, calls on the skills of university faculty and graduate students to provide management counseling for small businesses.

SBDCs, Small Business Development Centers, are university based organizations whose purpose is to develop the economy of the region around the university by providing a wide range of management assistance to small businesses and individuals in the area. Some SBDCs offer the services of specialists in the area of innovation management. See also page 5.

For a full description of SBA's Management Assistance program, contact the SBA field office nearest you. A list of field offices is provided in Appendix 5.

SBA Management Assistance Publications To order up to five copies of each title, write: SBA, P.O. Box 15434, Fort Worth, TX 76119. Ask for them by title and number. They are free.

MA 2.006 \_ Finding Q New Product for Your Company MA 1.008 \_ Attacking Business Decision Problems with Breakeven Analysis MA 2.013 \_ Can You Make Money With Your Idea or Invention? MA 2.016 \_ Checklist for Going Into Business MA 4.019 \_ Learning About Your Market

SBB 9  
SBB 13  
SBB 18  
SBB 89  
SBB 90

Marketing Research Procedures National Directories for Use in Marketing Basic Library  
Reference Sources Marketing for Small Business New Product Development

SBA also publishes a pamphlet describing its field structure, its various programs, plus it gives a guide to small business organizations, Congressional Delegations, selected committees, and so forth. It is called Small Business Guide to Government, published by the Office of Advocacy, and can be gotten through the field offices or from 1441 L Street, NW, Washington, DC 20416.

NASA Technical Assistance Programs and Publications National Aeronautics and Space Administration programs produce a wealth of aerospace technology. The Office of Space and Terrestrial Applications coordinates a nationwide network of specialists who provide a link between aerospace technology and high technology businesses. For a nominal fee these NASA specialists offer scientific, technical, research, and management services. These services are provided through regional Industrial Applications Centers and State

Technology Applications

Centers. See Appendix 10 for a listing of these Centers.

NASA also has several publications of interest to inventors, R&D managers, and high technology firms. Tech Briefs is a quarterly survey of newly developed processes, advances in basic and applied research and laboratory techniques, and new sources of technical data and computer programs. Their Technical Support Package provides more detailed information on the subjects surveyed in the Briefs. Tech Briefs are free. NASA also published various handbooks and data compilations, for example, the Scientific and Technical Aerospace Reports. For subscriptions to or information on NASA publications, write: Director, Technology Transfer Division, NASA Scientific and Technical Information Facility, P.O. Box 8757, Baltimore/Washington International Airport, MD 21240.

In addition to publications, NASA provides computer programs covering a wide range of aerospace applications. These programs are available at a fraction of their original cost through: Computer Software Management and Information Center (COSMIC), 112 Barrow Hill, University of Georgia, Athens, GA 30602, phone: (404) 542\_3265. New programs are announced in Computer Program Abstracts, obtained through the Superintendent of Documents, GPO, Washington, DC 20402.

Nongovernment Publications on Innovation Management Gee, Edwin A. and Chaplin Tyler.

Managing Innovation. New York John Wiley and Sons, 1976.

Karger, Delmar W. and Robert G. Murdick. New Product Venture Management. New York Gordon and Beach Science Publishers, Inc., 1972.

Marvin, Philip. Product Planning Simplified. American Management Associations, New York, 1972.

Midgley, David F. Innovation and New Product Marketing. London: Croom Helm Publishers, 1977.

Scheuing, Eberhard E. New Product Management. Hinsdale, IL The Dryden Press, 1974.

#### Production and Sales Phase

The final component of the Commercialization Stage is the actual production and sale of a new or improved product. The emphasis in this part of our Guide is on Federal procurement and procurement assistance programs. Private organizations like invention brokers and venture capital companies and non profit organizations like the MIT Enterprise

Forum can offer advice on production and sales, as well as act as liaison between the inventor and a potential manufacturer, (and they already have been discussed) but here we are concerned with how to sell to the U.S. Government.

Government Procurement Programs Before describing the various programs, here is a brief overview of the Federal procurement process. When the Government needs to purchase goods or services, it advertises for them. It can advertise through the Commerce Business Daily or trade papers, or it can invite bids from firms who are on a Bidders' List. A Bidders' List is a compilation, by an individual Agency, of the names, addresses, product orientations and related technical information of the companies who have the capability of supplying the goods or services the Agency needs.

How does a company get on a Bidders' List? First, find out what the procurement needs are of each Agency (every Agency has purchasing offices around the country and each Agency keeps its own Bidders' List) by asking for that information from the Agency's field office, a local SBA office, or the nearest GSA Business Service Center. Second, determine with which Agencies your company probably can do business. If you need more details than a field office can give about an Agency's exact procurement specifications and standards write to the Naval Publications and Forms Center, 5801 Tabor Avenue, Philadelphia, PA 19120. Ask by Agency name for its Procurement Specifications and Standards. Third, once you have determined to which Agencies (and what goods or services) you want to sell, call their field office and ask for the forms you need to get on their Bidders' List. Once you are on the list, you will automatically receive bid invitations.

In addition to getting on a Bidders' List, you should read the basic document advertising new purchasing requirements of Federal Government—the Commerce Business Daily. It lists procurement invitations, contracts awarded, subcontracting leads, and foreign business opportunities. The subscription rate is \$80 annually. Order from the Superintendent of Documents, GPO Washington, DC 20402.

#### Small and Disadvantaged Business Utilization (SADBU) Contacts

The various Federal Agencies are now establishing, at Agency headquarters, contact points for small businesses to call directly to obtain procurement and other financial assistance information. These are staffed with key personnel, knowledgeable about their own Agency's

procurement needs. A listing of these SADBUs contacts is given in Appendix 6.

#### Department of Energy Procurement Programs

The DOE's SADBUs Office offers information on DOE's grant and procurement programs related to energy technology research and development. For further information about guidelines and programs, write: Director, Small and Disadvantaged Business Utilization Office, Mail Stop 11009, Forrestal Building, 1000 Independence Avenue, S.W., Washington, DC 20585, phone (202) 252\_8201.

#### National Science Foundation Procurement Programs

NSF, Office of Small Business Research and Development publishes Small Business Guide to Federal R&D, previously mentioned. The Guide is intended to help small, high technology firms enter the market of Federally supported research and development. It is indispensable for firms not yet

into the Federal R&D field. All Federal Agency R&D grant and procurement programs are covered in detail. Also detailed are the steps needed to prepare a formal proposal for funding of R&D activities. While both grant and procurement programs are covered, the emphasis is on procurement.

#### Small Business Administration Procurement Programs

There are billions of dollars in Federal procurement contracts that annually bypass small businesses because their owners lack an understanding of how the Government buys goods and services.

The SBA has several programs that can help. They include:

- 1) Contracting Assistance\_SBA field offices (see Appendix 5) have Procurement Specialists who work closely with the purchasing personnel of the various Agencies and counsel small business owners on how to prepare bids, get their names on Bidders' Lists, etc.;
- 2) Small Business Set\_Aside\_These are contracts restricted for bidding by only small businesses;
- 3) Subcontracting Assistance\_SBA's field offices work closely with prime contractors to assure small business a fair share of subcontracting opportunities;
- 4) Certificates of Competency\_If there are questions about whether a small business can fulfill the contracting requirements of a bid it has won, SBA will investigate and make a binding

determination through the COC program;

5) Technology Assistance\_ In this program SBA encourages small businesses to participate in Federal R&D contracting by counseling them and listing them in the SBA's R&D directory; and

6) PASS\_ This is the Procurement Automated Source System, a field office based, computerized system listing the capabilities of small companies so Federal procurement officers and prime contractors can select companies to receive bidding invitations. Turn to Appendix 7 for a listing of SBA field offices specifically designated to deal with PASS information requests. To order a PASS Application Form call toll free 1 800 433\_7212.

SBA has several publications with a procurement orientation. Ask your local SBA field office for copies (if free) and order the for\_sale ones from the Superintendent of Documents, GPO, Washington. DC 20402.

OPC\_2

PA\_1

PA\_2

PA\_3

PA\_5

PA\_6

Your Business and the SBA Selling to the U.S. Government (CPO)  
Contractor Paths to Grievance  
Some Solutions SBA's Procurement and Technical Assistance Programs What is a Certificate of Competency? U.S. Government Purchasing and Sales Directory

(GPO)

SBA Subcontracting Directory (GPO)

State Economic Development and Small Business Programs Nearly all States have offices of economic or industrial

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development. Some States have extensive procurement, grant, and/or management assistance programs and will supply a packet of information about the services they provide to promote innovation, research and development, and small business opportunities. A few States are even developing science and technology offices specifically aimed at helping small, high technology firms. For an overview of state services, see: Book of the States, Council of State governments, P.O. Box 11910, Iron Works Pike, Lexington, KY 40578.

SBA's Office of the Chief Counsel for Advocacy publishes a Directory of State Small Business Programs. Listed are the State small business assistance programs with

names, addresses, phone numbers, and descriptions of the programs. See Appen dix 8 for a Survey Chart of these programs. Your local SBA field office uses this book for a reference and can put you in contact with the State program personnel in your area.

Procurement, R&D and Technology Conferences Several conferences are held annually throughout the country to help inventors and small, high\_technology fi~ns learn about the Government procurement\_contracting\_grant system, trends in technology, and how to evaluate and manage an invention. Contact to the following organizations for further information on their conference schedules. Some of these conferences are excellent sources of information and can provide personal con tacts with other inventors and small business managers.

National Innovation Workshops  
4035 Lincoln Blvd.  
Marina Del Ray  
Los Angeles, CA 90291  
(213) 822\_0350

Lakeshore Group Ltd.  
207 East Buffalo Street  
Milwaukee, WI 53202  
(414) 272\_5420

American Association of Small Research Companies 8794 West Chester Pike  
Upper Darby, PA  
19082 (215) 449\_2333 or 528\_6093

Inventors' Exposition Inventors Workshop International Box 251 Tarzana,  
CA 94705

National Inventors' Week Exposition Patent and Trademark Office  
Washington, D. C. 20231

(703) 557\_3158

California Inventors' Council  
Box 2096  
Sunnyvale, CA 94087  
(408) 732\_4314

New Products Technology Development Conference P. O. Box 12793 Research  
Triangle Park,  
NC 27709

(919) 549\_8193

Publications of Interest

In addition to the publications already listed in the various sections

of this pamphlet, there are  
some other journals and books of use to the inventor and innovative  
small business. They  
include:

#### Professional Journals

American Bulletin of International Technology Transfer  
International Advancement, Inc.  
Box 75537  
Los Angeles, CA 90075

American Inventor  
10310 Menhart Lane  
Cupertino, CA 95014

In Business  
The JG Press  
Box 323  
18 South Seventh Street  
Emmaus, PA 18049  
(215) 967\_4135

Inc.  
38 Commercial Wharf  
Boston, MA 02110  
(617) 227\_4700

Industrial Research ~ Development Magazine  
Technical Publishing  
1301 South Groove Street  
Barrington, IL 60010  
(312) 381\_1840

International New Products Newsletter  
Transcommunications International, Inc.  
Box 191  
Back Bay Annex  
Boston, MA 02117

New Product Monthly Reports  
Berliner Research Center, Inc.  
Berliner Research Bldg.  
Danbury CN 06810  
(203) 74~2333 Telex 969658

New Products and Processes  
Newsweek International  
P.O. Box 424  
Livingston, NJ 07039

New Products Bulletin  
Tiffany Products, Inc.  
239 Main Street  
West Orange, NJ 07052  
(201) 731\_9111

New Products News  
8576 Mesa Drive  
Sandy, UT 84070

(801) 561\_3259

Product Design and Development  
Chilton Company  
Chilton way  
Radnor, PA 19089

Product Engineering  
Morgan\_Grampian Publications  
2 Park Avenue  
New York, NY 10016  
(212) 573\_8133

Technical Information Periodicals Service,  
Selected Business Ventures,  
New Business Digest Annual  
General Electric Company  
Business Growth Services  
120 Erie Blvd., Room 380  
Schenectady, NY 12305  
(518) 385\_2577

The Review of Scientific Instruments  
American Institute of Physics  
335 45th Street  
New York, NY 10017  
(212) 661\_9404

Technology Mart  
Thomas Publishing Company  
One Penn Plaza  
250 West 34th Street  
New York, NY 10001

Test Engineering ~ Management  
The Mattingley Publishing Company  
61 Monmouth Road  
Oakhurst, NJ 07755

Venture Capital  
Capital Publishing Company  
Box 348  
Wellesley Hill, MA 02181  
(617) 235\_5405

Venture Magazine  
35 West 45th Street  
New York, NY 10036  
(212) 84~5580

Books of Inter~t

For a complete listing of books on invention and invention management  
see Books in Print, found  
in the reference section of libraries.

Baumbach, Clifford M. Entrepreneurship and Venture Manage ment.  
Englewood, NJ:  
Prentice\_Hall, 1977.

Baty, Gordon B. Entrepreneurship: Playing to Win. Reston, VA: Reston



Publishing Company,  
1974.

Bylinsky, Gene. The Innovation Millionaires: How They Succeed. New York:  
Charles Scribner s  
Sons.

Cunningham, Donald E, John R. Craig, and Theodore W. Schlie.  
Technological Innovation: The  
Experimental R~D Incen tives Program. Boulder, CO: Westview Press, 1977

Greene, Orville and Frank Durr. The Practical Inventor's Hand book. New  
York McGraw\_Hill,  
1979.

Hallock, Robert. Inventing for Fun and Profit. New York: Dover  
Publishers, Inc., 1978.

Hartman, Susan N. and Norman C. Parrish. Inventors' Source Book: ~ow to  
Turn Ideas Into  
Inventions. Inventors Resource Center, P.O. Box 158, Rheem Valley, CA  
94570.

Jewkes, J. et al. The Sources of Invention. St. Martin's Press, 1958.

Kivenson, Gilbert. The Art and Science of Inventing. New York. Van  
Nostrand Reinhold, Inc.,  
1977.

Kracke, Donald. How to Turn Your Idea Into a Million Dollars. Garden  
City, NY: Doubleday.

Li, Yao Tzu. Technical Innovation in Education and Industry. Cambridge,  
MA: MIT Press, 1978.

Reffman, William E. How to Sell Your Own Invention. Halls of Ivy Press,  
1977.

Shcwenck, James and Eric P. McNair. How to Become a Suc cessful  
Inventor: Design a Gadget  
in Your Spare Time and Strike it Rich! New York Hastings House  
Publishers, 1974.

## Appendices

### Appendix 1. Patent Depositories

#### Public Libraries

Albany, New York  
Birmingham, Alabama  
Boston, Massachusetts  
Buffalo, New York  
Chicago, IUinois  
Cincinnati, Ohio  
Cleveland, Ohio

DaUas, Texas  
Denver, Colorado

Detroit, Michigan  
Los Angeles, California  
Milwaukee, Wisconsin  
Newark, New Jersey  
New York, New York  
Providence, Rhode Island  
St. Louis, Missouri  
Toledo, Ohio

#### Other Libraries

Price Gilbert Library  
Georgia Institute of  
Technology  
Atlanta, Georgia

Ohio State University  
Library  
Columbus, Ohio

The Fondren Library  
Rice University  
Houston, Texas

Linda HaU Library  
Kansas City, Missouri

Love Library  
University of  
Nebraska Lincoln  
Lincoln, Nebraska

Wendt Engineering Library  
University of Wisconsin  
Madison, Wisconsin

Franklin Institute Library  
Philadelphia, Pennsylvania

Carnegie Library  
Pittsburgh, Pennsylvania

D. H. Hill Library  
Raleigh, North Carolina

Engineering Library  
University of Washington  
Seattle, Washington

Oklahoma, State University  
Stillwater, Oklahoma

Sunnyvale Patent Library  
Sunnyvale, California

## Appendix 2. Grant Application Procedures

This Appendix is designed to brief those seeking Federal grants. The first step in the grant application process is to determine what grants and other funding are available from the various Agencies. The sources of information available to help make the determination already have been reviewed. To reiterate, those basic sources include Federal Agency contact personnel, Agency publications on grant guidelines, Agency field offices, the Catalog of Federal Domestic Assistance, the State Central Information Reception Agency (an information office in each State government), and the Federal Assistance Programs Retrieval System (another State based information office).

Once the Agency and type of grant have been determined, ask for the Application Kit for the specific grant program. This Kit will provide the details and forms needed to make a grant application.

A Proposal Paper is a basic requirement in any grant application, so it's important to do it well. The Proposal Paper should include: a brief biographical sketch of the individual or key staff members of the organization seeking the grants, a brief history of individual or organizational accomplishments, and the statement of the problem. When stating the problem, the author should explain what is going to be accomplished with the grant, who will benefit, what the exact nature of the problem is, how you will approach and solve the problem, and what will happen to the project when funding is over.

Remember, before developing a Proposal Paper, have the Grant Application Kit in hand and have a contact point in the Agency offering the grant. Your Agency contact is important and will answer your day to day questions, as well as review your Proposal Paper. Remember too that your Proposal Paper must provide the details of what the objectives are, and what, how and when resources are to be allocated to achieve the objectives.

For further information on grant writing, check the Federal Register, the official Executive Branch document detailing grant project requirements, found in many libraries and government offices throughout the country.

## Appendix 3. DOE Regional Office

Region I  
Department of Energy  
Analox Building  
150 Causeway Street

Boston, Massachusetts 02114

Region II

Department of Energy 26 Federal Plaza New York, New York 10007

Region III

Department of Energy 1421 Cherry Street Philadelphia, Pennsylvania 19102

Region IV

Department of Energy 1655 Peachtree Street Atlanta, Georgia 30309

Region V

Department of Energy

175 West Jackson Boulevard Chicago, Illinois 60604

Region VI

Department of Energy P.O. Box 35228 2626 West Mockingbird Lane Dallas, Texas 75235

Region VII

Department of Energy 324 East 11th Street Kansas City, Missouri 64152

Region VIII

Department of Energy

P.O. Box 26247 Belmar Branch 1075 South Yukon Street Lakewood, Colorado 80226

Region IX

Department of Energy 333 Market Street San Francisco, California 94111

Region X

Department of Energy 1992 Federal Building 915 Second Avenue Seattle, Washington 98174

Appendix 4. The Federal Assistance Programs

Retrieval System (Enhanced Version)

The Federal Assistance Programs Retrieval System (FAPRS) is a computerized question-answer system which is designed to provide rapid access to Federal grant program information. Program information provided by FAPRS is determined from input supplied by the requestor. Input required includes the name of the State, county, city, town, or federally designated Indian Tribe for which program information is requested; the population of the city or town; the type of applicant (e.g., State or local organization, small business, individual), the type of assistance under which programs are administered (e.g. grants, loans; and the specific functional categories and sub categories of interest. Based upon the input supplied by the requestor, the output provided by FAPRS consists of: 1) a list of 18

program numbers and titles, 2) the full text of selected programs, or 3) specific sections of the program text.

The following are principal features of the enhanced version FAPRS system:

6.

Expansion of functional categories and sub categories.

Expansion of the applicant eligibility specification to include 12 government related and 10 non government related applicant types.

Specification of the type(s) of assistance desired as one of the search criteria. At present, the Catalog lists up to 15 types of assistance provided by Federal programs.

Display of definitions for functional subcategories, applicant types, and types of assistance.

Selection of specific sections of Catalog text to be displayed.

Formatted display of Federal circular requirements for a selected list of programs.

States have designated access points where FAPRS searches may be requested. In addition, bulletins on FAPRS are available. For further information on FAPRS, the location of the nearest State access point, or a list of the timesharing companies from which interested persons may arrange for direct access to the system, write to the Office of Management and Budget, Budget Review Division, Federal Program Information Branch, Washington, DC 20503.

Appendix 5. SBA Field Offices: Addresses and Commercial Telephone numbers

City  
Boston  
Augusta  
Concord  
Hartford  
Montpelier  
Providence

New York  
Melville  
Hato Rey

Newark  
Syracuse  
Buffalo  
Elmira

Bala Cynwyd  
Harrisburg  
Wilkes\_Barre  
Wilmington  
Towson  
Clarksburg  
Charleston  
Pittsburgh

Richmond  
Washington

Atlanta  
Birmingham  
Charlotte  
Columbia  
Jackson  
Biloxi  
Jacksonville  
Louisville  
Coral Gables  
Nashville  
Knoxville  
Memphis

Chicago  
Cleveland  
Columbus  
Cincinnati  
Detroit  
Marquette  
Indianapolis  
South Bend  
Madison  
Milwaukee  
Minneapolis  
Springfield

Dallas  
Albuquerque  
Houston  
Little Rock  
Lubbock  
El Paso  
Harlingen

Stste	Zip Code
Mass.	02114
Maine	04330
N. H.	03301
Conn.	06103
Vt.	05602
R. I.	02903

N. Y.	10278
N. Y.	11747
Puerto Rico & V.l.	00919
N. J.	07102
N. Y.	13260
N. Y.	14202
N. Y.	14901

Pa.	19004
Pa.	17101
Pa.	18702
Del.	19801
Md.	21204
W. Va.	26301

W. Va.	25301
Pa.	15222
Va.	23240
D. C.	20417

Ga.	30309
Ala.	35205
N. C.	28202
S. C.	29202
Miss.	39269
Miss.	39530
Fla.	32202
Ky.	40201
Fla.	33134
Tenn.	37219
Tenn.	37902
Tenn.	38103

111	60604
Ohio	44199
Ohio	43215
Ohio	45202
Mich.	48226
Mich.	49855
Ind.	46204
Ind.	46601
Wisc.	53703
Wisc.	53202
Minn.	55403
111.	62701

Tex.	75242
N. M.	87110
Tex.	77054
Ark.	72201
Tex.	79401
Tex.	79902
Tex.	78550

Address

150 Causeway St., 10th Floor  
40 Western Avenue, Room 512  
55 Pleasant Street, Room 211  
One Financial Plaza  
87 State Street, Room 204, P.O. Box 605  
40 Fountain Street

26 Federal Plaza, Room 3100  
35 Pinelawn Road, Room 102E  
Carlos Chardon Ave, Fed. Bldg. Rm. 691

970 Broad St., Room 1635  
100 South Clinton Street, Room 1073  
111 West Huron St., Room 1311  
180 Clemens Center Parkway, Room 412

231 St. Asaphs Rd., Suite 400 East Lobby  
100 Chestnut Street, Suite 309  
20 North Pennsylvania Avenue  
844 King Street, Room 5207

8600 LaSalle Road, Room 630  
109 North 3rd St., Room 302  
Charleston National Plaza, Suite 628  
960 Penn Ave., 5th Floor  
400 North 8th St., Room 3015, P.O. Box \_  
1111 18th St.. N.W..6th Floor

1720 Peachtree Road, N.W., 6th Floor  
908 South 20th St., Room 202  
230 S. Tryon Street, Suite 700  
1835 Assembly, 3rd Floor P.O. Box 2786  
100 West Capitol Street, Suite 322  
111 Fred Haise Blvd., 2nd Floor  
400 West Bay St., Room 261, Box 35067  
600 Federal Pl., Room 188, P.O. Box 3517  
2222 Ponce De Leon Boulevard, 5th Floor  
404 James Robertson Parkway, Suite 1012  
502 South Gay St., Room 307  
167 North Main St., Room 211

219 South Dearborn St., Room 437  
1240 East sth St., Room 317  
85 Marconi Boulevard  
550 Main St., Room 5028  
477 Michigan Ave.  
220 West Washington St., Room 310  
575 North Pennsylvania St., Room 578  
501 E Monroe St., Suite 120  
212 East Washington Ave., Room 213  
517 East Wisconsin Ave., Room 246  
100 North 6th St.  
Four North, Old State Capital Plaza

1100 Commerce St., Room 3C36  
5000 Marble Avenue, N.E., Room 320  
2525 Marworth, Room 43  
320 West Capitol Ave., P.O. Box 1401  
1205 Texas Avenue, Room 712  
4100 Rio Bravo. Suite 300  
222 East Van Buren Street, P.O. Box 2567

#### Phone Number

(617) 223\_3224  
(207) 622\_8378  
(603) 2244041  
(203) 244\_3600  
(802) 229\_0538  
(401) 5284580  
(212) 2644355 (516) 454\_0750  
(809) 753\_4572

(201) 645\_2434 (315) 423\_s383 (716) 846\_4301 (607) 733\_4686  
(215) 596\_5889 (717) 782\_3840 (717) 826\_6497 (302) 5734294 (301) 962\_  
4392 (304)  
623\_5631 (304) 343\_6181 (412) 644\_2780 (804) 771\_2617 (202) 634\_4950  
(404~ 881\_4749 (205) 254\_1344 (704) 371\_6563  
(803) 765\_5376 (601) 960\_4378  
(601) 435\_3676 (904) 791\_3782 (502) 582\_5971 (305) 350\_5521 (615) 251\_  
5881 (615)  
637\_9300 (901) 521\_3588



(312) 353\_4528 (216) 552\_4170 (614) 469\_6860 (513) 684\_2814 (313) 226\_  
7241 (906)  
225\_1108  
(317) 269\_7272 (219) 232\_8163 (608) 264\_5261 (414) 291\_3941  
(612) 349\_3550 (217) 492\_4416  
  
(214) 767\_0605 (505) 766\_3430 (713) 660\_4401 (501) 378\_5871 (806) 762\_  
7466  
(915) 543\_7586 (512) 423~934  
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City  
Corpus Christi  
New Orleans  
Oklahoma City  
San Antonio

Kansas City  
Springfield  
Sikeston  
Cedar Rapids  
Des Moines  
Omaha  
St. Louis  
Wichita

Denver  
Casper  
Fargo  
Helena  
Salt Lake City  
Sioux Falls  
Rapid City

San Francisco  
Fresno  
Las Vegas  
Honolulu  
Agana  
Los Angeles  
Santa Ana  
Phoenix  
San Diego

Seattle  
Anchorage  
Fairbanks  
Boise  
Portland  
Spokane

State	Zip Code
Tex.	78408
La.	70113
Okla.	73102
Tex.	78206
Mo.	64106
Mo.	65806
Mo.	63801
Iowa	52402

Iowa	50309
Neb.	68102
Mo.	63101
Kans.	67202
Colo.	80202
Wyo.	82602
N. D.	58108
Mont.	59601
Utah	84138
S. D.	57102
S. D.	57701
Calif.	94105
Calif.	93712
Nev.	89101
Hawaii	96850
Guam	96910
Calif.	90071
Calif.	92701
Ariz.	85012
Calif.	92188
Wash.	98174
Alaska	99513
Alaska	99701
Idaho	83701
Oreg.	97204
Wash.	99210

## Appendix 6. Small and Disadvantaged Business Utilization of Firms

Department

Agriculture

U.S. Air Force

U.S. Army

Commerce

Defense

Education

Energy

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Address

3105 Leopard Street, P.O. Box 9253  
 1001 Howard Avenue, 17th Floor  
 200 N.W. 5th Street, Suite 670  
 727 East Durango Street, Room A\_513

1150 Grande Ave., 5th Floor  
 309 N. Jefferson

731A N Main Street  
373 Collins Road NE  
210 Walnut St., Room 749  
19th & Farnum St., 2nd Floor  
One Mercantile Tower\_ Suite 2500  
110 East Waterman Street

721 19th Street  
100 East B Street, Room 4001, P.O. Box 2839  
657 2nd Ave., North, Room 218, P.O. Box  
301 S. Park Avenue, Room 528, Drawer 10054  
125 South State St., Room 2237  
101 South Main Ave., Suite 101  
515 gth St., Room 246

211 Main Street, 4th Floor  
2202 Monterey St  
301 E Stewart, PO Box 7525, Downtown Station;  
300 Ala Mona, Room 2213, P.O. Box 50207  
Pacific Daily News Bldg., Room 508  
350 S. Figueroa St., 6th Floor  
2700 North Main Street  
3030 North Central Avenue, Suite 1201  
880 Front Street, Room 4\_S\_29

915 Second Ave., Room 1744  
701 C Street  
101 12th Ave.  
1005 Main St., 2nd Floor  
1220 S.W. Third Avenue, Room 676  
West 920 Riverside Avenue, Room 651  
P.O. Box 2167

Phone Cont~ct~  
Area codes are 202  
447\_7117 \_ EPA

23~1822 GSA

6974126

697\_2868

377\_1472

694\_1151

245\_8160

252\_8201

.. \_ .

Phone Number

(512) 888\_3331

(504) 589\_6685

(405) 2314301

(512) 229\_6250

(816) 374\_3416 (417) 864\_7670 (314) 471\_0223 (319) 399\_2571 (515) 284\_  
4422 (402)

221\_4691 (314) 425\_6600 (316) 267\_6571  
 (303) 837\_2607 (307) 261\_5761 (701) 237\_5771 (406) 449\_5381 (314) 425\_  
 5800 (605)  
 336\_2980 (605) 343\_5074  
 (4151 974\_0642 (2091 487\_5189 (702) 385\_6611 (808~ 546\_8950 (671) 477\_  
 8420 (213)  
 688\_2956 (714) 547\_5089 (602) 241\_2200 (714) 293\_5440  
 (206) 442\_5534 (907) 271\_4022 (907) 456\_0211 (208) 33~1696 (503) 294\_  
 5221  
 (509) 456\_5310

. . .  
 Department

Phone Contacts  
 Area Codes are 202

~ealth and Human Services

755\_0393  
 566\_1021  
 245\_7300  
 755\_1428  
 633\_5136  
 523\_9148

~r ~ RQ

~UD  
 ce  
 Labor

INASA  
 U.S. Navy .

~ J~  
 5g~

Department

Phone Contact~  
 Area Codes are 202  
 235\_9524

State

Tennessee Valley Authority

Transportation

Treasury

Veterans Administration

Appendix 7. U.S. Small Buxiness Administration  
 PASS Telephone Numbers and Mailing Addresses  
 Area  
 Maine, New Hampshire,  
 Massachusetts, Rhode Island,  
 Connecticut, Vermont

New York, New Jersey,  
Puerto Rico, Virgin Islands

Pennsylvania, Maryland,  
Delaware, Washington DC,  
Virginia, West Virginia

North Carolina, South  
Carolina, Georgia, Florida,  
Alabama, Mississippi, Kentucky,  
Tennessee

Ohio, Illinois, Indiana,  
Michigan, Wisconsin, Minnesota

Texas, Louisiana, Arkansas,  
Oklahoma, New Mexico

Kansas, Missouri, Nebraska,  
Iowa

Colorado, Wyoming, Utah,  
Montana, North Dakota,  
South Dakota

Southern California (Zip  
Codes 90000 93599), Arizona

Northern California (Zip  
Codes 93600\_95999), Hawaii  
Nevada, Guam

Oregon, Idaho, Washington,  
Alaska

(615) 751\_2827

426\_1930

376\_0851

389\_3924

Telephone No. (617) 223\_3162

(212) 596\_5270

(215) 596\_5988

(404) 8814588

(312) 353\_0438

(214) 767\_7639

(816) 374\_3516

(303) 837\_3686

(213) 688\_2946

(415) 556\_1650

(206) 442\_0390

Address 60 Batterymarch 10th Floor Boston, MA 02110

26 Federal Plaza  
New York, NY 10007

Suite 646 W Lobby  
One Bala Cynwyd Plaza  
Bala Cynwyd, PA 19004

1375 Peachtree St NE  
5th Floor  
Atlanta, GA 30309

219 S Dearborn St Rm 838  
Chicago, IL 60604

1720 Regal Row  
Dallas, TX 75235

911 Walnut \_ 23rd Floor  
Kansas City, MO 64106

Executive Tower Bldg  
140S Curtis St 22nd Fl  
Denver, CO 80202

350 S Figueroa St 6th Fl  
Los Angeles, CA 90071

450 Golden Gate Avenue  
San Francisco, CA 94102

710 Second Avenue  
Seattle, WA 98104

Appendix 8. State Small Business Programs: Survey Chart of the Fifty States

## States

Alabama	
Alaska	
Arizona	
Arkansas	
California	
Colorado	
Connecticut	
Delaware	
Florida	X
Georgia	
Hawaii	
Idaho	
Illinois	X
Indiana	
Iowa	
Kansas	
Kentucky	
Louisiana	
Maine	
Maryland	
Massachusetts	
Michigan	
Minnesota	
Mississippi	
Missouri	
Montana	
Nebraska	
Nevada	
New Hampshire	
New Jersey	
New Mexico	
New York	
North Carolina	
North Dakota	
Ohio	
Oklahoma	
Oregon	
Pennsylvania	
Rhode Island	
South Carolina	
South Dakota	
Tennessee	
Texas	
Utah	
Vermont	
Virginia	
Washington	
West Virginia	
Wisconsin	
Wyoming	

Small Business Assistance Office

X

Procurement Program

X XX

X

X

X'

X2

X

X

X

X

X

X~'

X

X'

XX

' on informal basis

2 pending program

3 existing business liaison

Other

Significant

Programs

Appendix 9. SBA Small Business Development Centers (SBDC)  
University and Address

Region I

Region II

Region III



Region IV

Region V

Region VI

University of Southern Maine  
Small Business Development Center  
246 Deering Avenue  
Portland, Maine 04102

University of Massachusetts  
Small Business Development Center  
School of Business Administration  
Amherst, Massachusetts 01003

Rutgers University  
Small Business Development Center  
65 Central Avenue  
Newark, New Jersey 07102

Howard University  
Small Business Development Center  
P.O. 80x 748  
Washington, D.C. 20059

University of Pennsylvania  
Small Business Development Center  
The Wharton School  
W\_178 Dietrich Hall  
Philadelphia, Pennsylvania 19104

University of Alabama in Birmingham Small Business Development Center  
University Station  
Birmingham, Alabama 35294  
University of West Florida  
Small Business Development Center  
School of Business Administration  
Pensacola, Florida 32504

University of Georgia  
Small Business Development Center  
Athens, Georgia 30602

University of South Carolina  
Small Business Development Center  
Basic Service Center  
College of Business Administration  
Columbia, South Carolina 29208

University of Wisconsin  
Small Business Development Center  
One South Park Street  
Madison, Wisconsin 53706

St. Cloud State University  
Small Business Development Center  
College of Business  
St. Cloud, Minnesota 56301

University of Arkansas / I.R.E.C.  
Small Business Development Center  
1015 West Second Street \_ P.O. Box 3017  
Little Rock, Arkansas 72204

(413) 549\_4930  
Ext. 304

(201) 648\_5627

(202) 636\_7187

(215) 243\_4861

(205) 934\_7260

(904) 476\_9500  
Ext. 425

(404) 542\_5760

(803) 777\_5118  
(608) 263\_7794  
(612) 255\_3215  
(501) 370\_5381

#### University and Address

University of Nebraska at Omaha  
Small Business Development Center  
Omaha, Nebraska 68182

Region VII

RegionVIII

Region IX

Region X

None established.

University of Utah  
Small Business Development Center  
Graduate School of Business  
Salt Lake City, Utah 84112

None established.

Washington State University  
Small Business Development Center  
245 Todd Hall  
Pullman, Washington 99164

#### Appendix 10. NASA Industrial Applications and State Technology Applications Centers

##### Industrial Applications Centers

Aerospace Research Applications Center  
1201 east 38th Street  
Indianapolis, Indiana 46205  
Phone: (317) 264\_4644

Kerr Industrial Applications Center  
Southeastern Oklahoma State University  
Durant, Oklahoma 74701  
Phone: (405) 924\_0121, Ext. 413

NASA Industrial Applications Center  
701 LIS Building  
UniveKity of Pittsburgh  
Pittsburgh, Pennsylvania 15260  
Phone: (412) 624\_5211

NASA Industrial Applications Center  
UniveKity of Southern California  
Denny Research Building  
University Park  
Los Angeles, California 90007  
Phone: (213) 741\_6132

New England Research Applications Center  
Mansfield Professional Park  
Stom, Connecticut 06268  
Phone: (203) 486\_4533

Telephone  
(402) 554\_2521  
(801) 581\_7905  
(809) 335\_1576

North Carolina Science and Technology Research Center Post Office Box  
12235 Research  
Triangle Park, North Carolina 27709 Phone (919) 549\_0671

Technology Applications Center (TAC) UniveKity of New Mexico 2500  
Central Avenue, S.E.  
Albuquerque, New Mexico 87131 Phone: (505) 277\_3622

State Technology Applications Center~

NASA / Florida State Technology Applications Center State University  
System of Florida 500 Weil  
Hall Gainesville, Florida 32611 Phone: (904) 392\_6626

NASA / UK Technology Applications Program University of Kentucky 109  
Kinkead Hall Lexington,  
Kentucky 40506 Phone: (606) 258\_4632

Can You Make Money with Your Idea or Invention?

Summary

Innovative ideas are essential to business progress. It is very difficult, however, for innovators to get the kind of financial and management support they need to realize their ideas.

This Aid, aimed at idea people, inventors, and innovative owner-managers of small companies, describes the tests every idea must pass before it makes money.

You've Got an Idea? Great!

So, you've had an idea for an invention or an innovative way of doing something that will boost productivity, put more people to work, and make lots of money for you and anyone who backs you? As you've probably heard, you're the kind of person your country needs to compete in world markets and maintain its standard of living. You're the cutting edge of the future.

You are another of those individuals on whom progress has always depended. We all know that it hasn't been huge corporations that have come up with the inventions that have revolutionized life. As the discoverer of penicillin, Sir Alexander Flemming, said, "It is the lone worker who makes the first advance in a subject: The details may be worked out by a team, but the prime idea is due to the enterprise, thought and perception of an individual." Innovators like you are business's lifeblood.

Owner-managers who have started companies on new ideas know first hand about the innovation process. They also know that you can expect to hear....

You've Got an Idea? So What?

In the first place, the chances that you are the first to come up with a particular innovation are somewhere between slim and none. Secondly, even if you have come up with the better mouse trap, nobody--but nobody--is going to beat a path to your door. In fact, in the course of trying to peddle your BMT, you'll beat up plenty of shoe leather wearing paths to other people's doors. You'll stand a good chance of wearing out your patience and several dozen crying towels as well.

Why is it so hard to find backers for your brainchildren? One consultant put it: "Nobody wants unproven ideas. Nobody wants to be first. Everybody wants to be second." Why this fear of the new?

Well, new product failure rates are estimated conservatively to be between 50 and 80 percent. One survey of major companies with millions of dollars to spend on R & D, market research, and product advertising, and with well-established distribution systems found that of 58 internal proposals only 12 made it past initial screening. From these 12 only one successful new product emerged.

Another group set up to help innovators has found that of every 100 ideas submitted 85 have too many faults to bother with. They can be eliminated immediately. Of the remaining 15, maybe five will ever be produced. One of those might--only might--make money.

With odds like 99 to 1 against an idea being a monetary success, is it any surprise that your idea is greeted with a chorus of yawns? People--companies, investors, what have you--are basically conservative with their money. Ideas are risky.

Does that mean you should forget about your idea? Of course not. It merely means that now you're beginning to see what Edison meant, when he said, "Genius is one per cent inspiration and ninety-nine percent perspiration."

Again, those of you who own small firms started on innovations are well aware of the truth of Edison's words. You've been through the hard work.

Can You Exploit Your Idea?

Although coming up with what you think is a sure-fire idea is the biggest step, it's still only the first one. You've got the other thousand miles of the journey to success still ahead of you.

Many things remain to be done before you can expect to realize the first dollar from your invention or other innovation. You should be prepared for the unhappy discovery that the end of the line for your idea may turn up well before the point you needed to reach to make money from it.

At a bare minimum, your idea will have to pass the following tests:

Is it original or has someone else already come up with it?

Can someone produce and distribute it if it's an invention or other product, or use it if it's a marketing innovation, a new use for an existing product, or the like?

Will it really make money? (Will someone buy it?)

Can you protect your idea?

That seems to be a modest enough list, and it is. The problems arise from the dozens of underlying questions that must be answered before the major questions can be resolved. Here, for example, are the 33 areas that the University of Oregon's Innovation Center runs each submitted idea through to determine if it has commercial merit:

- Legality
- Safety
- Environmental Impact
- Societal Impact
- Potential Market
- Product Life Cycle
- Usage Learning
- Product Visibility
- Service
- Durability
- New Competition
- Functional Feasibility
- Production Feasibility

- Stability of Demand
- Consumer/User Compatibility
- Marketing Research
- Distribution
- Perceived Function
- Existing Competition
- Potential Sales

- Development Status
- Investment Costs
- Trend of Demand
- Product Line Potential
- Need
- Promotion
- Appearance
- Price
- Protection
- Payback Period
- Profitability
- Product Interdependence
- Research and Development

Now that is not a modest list. However, for the moment let's ignore the 33 and look at the four broad questions.

## Is Your Idea Original?

Obviously, if somebody has already come up with and produced as good an item or a better one, it would be pointless for you to pursue a similar idea any further. You'd only be wasting your time and money.

There are lots of places to look to find out. If your idea is for a consumer product, check stores and catalogs. Check trade associations and trade publications in the field into which your invention or innovation fits. Visit trade shows relevant to your idea. Look in the business and popular press. (Here, you can consult The Reader's Guide to Periodical Literature to help you in your search. Your public library has a copy.)

Don't be afraid to ask people in the field if they've ever heard of anything along the lines of your idea. In the pure idea stage it's not very likely that somebody will steal your idea--all the hard work still has to be done. Besides, you can ask general sorts of questions and keep the details of your idea to yourself if you're really anxious that your idea will be pirated. Patent rights to an idea in major foreign countries will be jeopardized by uncontrolled disclosure prior to filing a patent application in the United States.

Obviously, if what you've come up with is an invention or an idea that can be put into patentable form, you'll eventually have to make a patent search. You could do that in this early stage, but it's probably a better idea to hold off until you've taken a look at your idea in the light of the next two questions.

## How Will the Invention Be Produced and Distributed?

The first thought many innovators have is to take their ideas to a big national company. Provide the dazzling idea, they think, and let the giant work out the details. After all, the national company has the money, the production capability, and the marketing know-how to make this surefire profit maker go.

Unfortunately, the big companies are almost never interested in ideas from outsiders. Whether that's because, as one innovation broker has suggested, that outside technology is "a risk, a threat," or simply because large corporations need potential sales of an item to be in the tens of millions of dollars, doesn't matter. The cold fact is that selling a big firm on your idea is in the 100,000 to 1 shot range.

On the other end of the scale, you may be able to produce some items yourself, working out of your home and selling by mail order. This method can be a good way to get started, but after a while you may find yourself getting tired of having 200,000 better mouse traps stashed in your bedroom.

To be sure, if you can start (or already have) your own company, you will be better off. It's easier to sell a company than a patent, even if the company is losing money.

Many potential buyers understand a company much better than they understand the technology of an invention. Business people usually look at the profit-and-loss possibilities differently from the way an innovator does.

Many of these business people follow what one innovator has called "the 'Anyhow' theory of economics": "We have a plant anyhow. We have a sales force anyhow. We advertise anyhow. We're smarter anyhow." Such business people also know that by the time they purchase a company most of the bugs are out of the technology and customers exist.

Between the extremes of starting your own company or having big business buy you out is taking your idea to small and medium-sized businesses. Such firms would be happy to produce an item producing sales in amounts that simply don't interest large companies. Smaller firms may lack marketing and distribution expertise, but again your major problem is even finding one that can help you realize your idea and is interested in trying.

#### Will Your Idea Make Money?

This is the question that worries everybody. Here is where the risk arises that makes it so difficult to interest people in backing your idea. It's a question that's really impossible to answer with any assurance. After all, major corporations even with massive market studies hit clinkers all the time. Remember the Edsel? On the other hand, an idea so seemingly stupid that you'd think it was somebody's idea of a silly joke might make millions. Don't you wish you'd thought of the pet rock?

So many factors need to be considered to answer this question. Is there a market? Where is it? Is it concentrated or dispersed? Could the size of the market change suddenly? Will competition drive you out? These questions are by no means the bottom of the iceberg. Yet, answering the money question to the satisfaction of potential backers is the key to the other questions.

#### Can You Protect Your Idea?

Once you've come up with tentatively satisfying answers to the originality, production and distribution, and salability questions, it's time to consider protecting your idea. After all, it looks like you may have something.

If you do have a patentable item, it's time to look into trying to protect



it under the patent laws. Here briefly are the steps you'll need to follow:

Get a close friend (who understands your invention) to sign his or her name on a dated diagram or written description of the invention. Or, you can file a "disclosure document" with the Patent Office. Taking one to these measures will provide evidence of the time you came up with your invention in case of a dispute with other inventors over who conceived it first. Sending yourself a registered letter describing the invention is useless as evidence. Filing a disclosure document does not give you any protection. Get patent protection as soon as possible.

Make a patent search to see whether or not the invention has already been patented in as good or better a version. You can make a search yourself. The only place to make such a search efficiently is at the Patent and Trademark Office in Arlington, Virginia. The staff at the Office will help you. You may find, however, that the only practical way to proceed from patent search on is with the help of a patent attorney.

If the invention has not been patented, prepare a patent application and file it with the Patent and Trademark Office.

Again, you can do this yourself, following the pattern you find in similar, recent patents, though, again, a patent attorney will be helpful. If you have an attorney prepare your application, go through the exercise yourself, anyway. Compare your application with your attorney's. Make sure all of the points you regard as important are covered and that the attorney has written what you want to say. Work out differences together.

Promptly file amendments or additional patent applications with the Office if you make important changes in your invention.

Having a patent won't mean you have absolute protection. In fact, one survey found that in over 70% of the infringement cases brought by patent holders to protect their patents, the patent itself was held invalid.

Defending your patent can be very expensive. If you don't have a patent, however, the probability of successfully protecting your invention approaches zero.

Mere ideas or suggestions can't be patented. Some of these you may be able to be put in patentable form, but for those that you can't it's pretty much do-it-yourself. Consult with a patent attorney or the Patent Office about the classes of patentable subject matter.

Say, for example, you think you have a great gimmick for selling more of Company A's products. Leaving aside the likelihood that Company A won't be

interested, how do you approach Company A with your idea with any assurance they won't simply use it without paying you a cent?

About the best you can do is write them a letter telling them you have a promotional (or whatever) idea and, without giving them any details, offer to send it to them. Include in your letter a statement to be signed and returned by a Company A representative promising they won't divulge your idea or make use of it without compensation (to be negotiated between them and you), if they'd like to know the details of your plan. They'll probably say thanks but no thanks or that they can't promise any such things without seeing the idea, but it's the only course open to you.

Is There Any Hope?

Each section of this Aid seems to be packed with bad news, but the Aid wouldn't be doing you any favors by raising false hopes. The point is, you need to be more than an idea person to make money out of an invention or other innovation.

Many small businesses have been doomed from the start because of false hopes. Those of you who already operate going firms have avoided wishful thinking in other business areas. You need to avoid it where innovation is concerned, too.

What are potential idea and invention backers looking for? If you read around in the subject, you'll run across many comments to the effect that:

What we want is an entrepreneur, someone who cannot only invent a product but find capital and a way of getting the product on the market.

It's better to have a fair new product and a great manager than the other way around.

Management is the most important element for success of an invention.

Edison wasn't only an inventing genius. He was also a promoting genius, a publicity genius, a capital-raising genius, a genius at seeing potential markets for inventions.

Have you ever heard of Joseph Swan? A strong case could be made for saying he invented the electric light eight months before Edison. Who got the patents? Who got the bulb to the market? Edison. Who invented the electric light bulb? Edison.

Few of us are Edisons. We may have brilliant product ideas, but we aren't usually knowledgeable, let alone brilliant, in all the of the areas that need to be covered. We need help.

Where Can you Go for Help?

While you probably still have to invest considerable perspiration yourself, you can get help with some of the sweating. Even Edison had some help.

Patent Attorneys and Agents. Attorneys and agents can help you make patent searches and applications, if you can't do them yourself. The U.S. Patent Office has geographical and alphabetical listings of such people, but doesn't make recommendations or assume any responsibility for your selection from their lists. You can also find attorneys and agents by looking in the classified section of your telephone directory under "Patents."

Invention Promotion Firms. Also likely to be listed in the "Patents." section of the directory are firms that offer--for a fee--to take on the whole job of protecting and promoting your idea. Caution is necessary in dealing with such promoters.

Federal Trade Commission investigations found that one firm, which charged fees ranging from \$1,000 to \$2,000, had ten clients who made money on their inventions--that was out of a total of 35,000. Another firm with 30,000 clients had only three with successful inventions. If you elect to use an idea promotion firm, make sure:

They can provide you with solid evidence of their track record--not just a few flashy success stories, but verifiable statistics on the number of clients they've had and the number who have actually made money.

They don't collect the entire fee in advance.

They will provide you with samples of their promotional materials and lists of companies to whom they've sent it. (Then check with those companies yourself.)

You check the promotion firm's reputation with the local Better Business Bureau, Chamber of Commerce, a patent attorney, or a local inventors or innovators club.

Invention Brokers. Brokers work for a portion of the profits from an invention. They may help inventors raise capital and form companies to produce and market their inventions. They often provide sophisticated management advice. In general, you can expect these brokers to be interested in more complex technology with fairly large sales potential.

University Innovation/Invention/Entrepreneurial Centers. These centers, some funded by the National Science Foundation, show promise for helping inventors and innovators. The best known one, the University of Oregon's Experimental Center for the Advancement of Invention and Innovation (The Innovation Center no longer exists), for example, evaluated an idea for a very modest fee. The Center evaluated an idea on 33 criteria (listed earlier in the Aid) to help inventors weed out bad ideas so they won't waste further time and money on them.

The Center also identified trouble spots that required special attention in planning the development or commercialization of a potential new product. If an idea looked like it had merit and was commercially feasible, the Center tried to link the innovator with established companies or referred him or her to sources of funds.

The Small Business Administration. The SBA's Small Business Institutes (SBI's) are located at more than 450 colleges and universities around the

country. While currently few SBI schools can provide much help with the technical R & D aspects of innovations, they certainly can provide the market research, feasibility analysis, and business planning assistance necessary to make an innovation successful.

SBA field offices (see your local telephone directory under "U.S. Government") can provide you with information about the SBI program. You may find other management assistance programs offered at the field offices of help in realizing your idea as well.

National Bureau of standards. The Office of Energy-Related Inventions in the U.S. Department of Commerce's National Bureau of Standards will evaluate non-nuclear energy-related inventions and ideas for devices, materials, and procedures without charge. If the office finds that the invention or idea has merit, it will recommend further study by the Department of Energy. The Department of Energy may provide support for the invention if it shows promise. This process may take from nine months to a year.

Inventor's Clubs/Associations/Societies. You may have such clubs in your locality. You can share experiences with kindred spirits and get good advice, low cost evaluation, and other help.

Talking with other inventors is probably the most helpful thing you can do.

Find someone who has been through the entire routine of patents, applied R&D, and stages of financing. It doesn't matter if the end result was a financial success or failure. Getting the nitty-gritty of the process is what's important.

Are You Being Unreasonable About Your Chances?

If you have read this Aid and still think you can make money with your idea, some people might think you've missed the point. If you continue to believe in your idea after looking at the odds and obstacles, you are being unreasonable.

That's exactly what you should be. You're in good company.

All progress is made by unreasonable people, George Bernard Shaw observed.

Reasonable people adapt to the world around them; unreasonable people try to change it.

## Checklist for Going Into Business

### Summary

Thinking of owning and managing your own business? It's a good idea--provided you know what it takes and have what it takes.

Starting a business is risky at best; but your chances of making it go will be better if you understand the problems you'll meet and work out as many of them as you can before you start.

Here are some questions and work-sheets to help you think through what you need to know and do. Check each question if the answer is YES. Where the answer is NO, you have some work to do.

### Before You Start

#### How about You?

Are you the kind of person who can get a business started and make it go?  
(Before you answer this question, use worksheet number 1.)

Think about why you want to own your own business. Do you want to badly enough to keep you working long hours without knowing how much money you'll end up with?  
Have you worked in a business like the one you want to start?  
Have you worked for someone else as a foreman or manager?  
Have you had any business training in school?  
Have you saved any money?

#### How about the money?

Do you know how much money you will need to get your business started?  
(Use worksheets 2 and 3 to figure this out.)  
Have you counted up how much money of your own you can put into the business?  
Do you know how much credit you can get from your suppliers--the people you will buy from?  
Do you know where you can borrow the rest of the money you need to start your business?  
Have you figured out what net income per year you expect to get from the business?  
Count your salary and your profit on the money you put into the business.  
Can you live on less than this so that you can use some of it to help

your  
business grow?  
Have you talked to a banker about your plans?

How about a partner?

If you need a partner with money or know-how that you don't have,  
do you know someone who will fit--someone you can get along with?  
Do you know the good and bad points about going it alone, having a  
partner,  
and incorporating your business?  
Have you talked to a lawyer about it?

How about your customers?

Do most businesses in your community seem to be doing well?  
Have you tried to find out whether stores like the one you want to open  
are doing well in your community and in the rest of the country?  
Do you know what kind of people will want to buy what you plan to sell?  
Do people like to live in the area where you want to open your store?  
Do they need a store like yours?  
If not, have you thought about opening a different kind of store or  
going  
to another neighborhood?

(Questions continue after Worksheets No. 1 and 2.)

#### Worksheet No. 1

Under each question, check the answer that says what you feel or comes  
closest to it. Be honest with yourself.

Are you a self-starter?

- \* I do things on my own. Nobody has to tell me to get going.
- \* If someone gets me started, I keep going all right. Easy does it.  
I don't put myself out until I have to.

How do you feel about other people?

- \* I like people. I can get along with just about anybody.
- \* I have plenty of friends--don't need anyone else. Most people irritate  
me.

Can you lead others?

- \* I can get most people to go along when I start something.
- \* I can give the orders if someone tells me what we should do.
- \* I let someone else get things moving. Then I go along if I feel like  
it.

Can you take responsibility?

- \* I like to take charge of things and see them through.
- \* I'll take over if I have to, but I'd rather let someone else be  
responsible.
- \* There's always some eager beaver around wanting to show how smart he  
is.  
I say let him.

How good an organizer are you?

- \* I like to have a plan before I start. I'm usually the one to get things lined up when the group wants to do something.
- \* I do all right unless things get too confused. Then I quit.
- \* You get all set and then something comes along and presents too many problems. So I just take things as they come.

How good a worker are you?

- \* I can keep going as long as I need to. I don't mind working hard for something I want. I'll work hard for a while, but when I've had enough, that's it.
- \* I can't see that hard work gets you anywhere.

Can you make decisions?

- \* I can make up my mind in a hurry if I have to. It usually turns out O.K., too.
- \* I can if I have plenty of time. If I have to make up my mind fast, I think later I should have decided the other way.
- \* I don't like to be the one who has to decide things.

Can people trust what you say?

- \* You bet they can. I don't say things I don't mean. I try to be on the level most of the time, but sometimes I just say what's easiest.
- \* Why bother if the other fellow doesn't know the difference?

Can you stick with it?

- \* If I make up my mind to do something, I don't let anything stop me.
- \* I usually finish what I start--if it goes well. If it doesn't go right away, I quit. Why beat your brains out?

How good is your health?

- \* I never run down!
- \* I have enough energy for most things I want to do.
- \* I run out of energy sooner than most of my friends seem to.

Now count the checks you made.

How many checks are there beside the first answer to each question?  
 How many checks are there beside the second answer to each question?  
 How many checks are there beside the third answer to each question?

If most of your checks are beside the first answers, you probably have what it takes to run a business. If not, you're likely to have more trouble than you can handle by yourself. Better find a partner who is strong on the points you're weak on. If many checks are beside the third answer, not even a good partner will be able to shore you up.

Now go back and answer the first question.

Worksheet No. 2

Estimated Monthly	Your estimate of monthly	Your estimate of how much	What to put in column 2
----------------------	-----------------------------	------------------------------	----------------------------

Expenses expenses based cash you need (These figures are  
on sales of to start your typical for one kind

# Checklist for Going Into Business

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\$\_\_\_\_\_ business of business. You will  
per year (See column 3) have to decide how  
many months to allow  
for in your business)

Item

AA  
AAAAAAAAAAAAAA

Column 1 Column 2 Column 3

Salary of owner-manager \$ \$ 2 times column 1

AA  
AAAAAAAAAAAAAA

All other salaries & wages 3 times column 1

AA  
AAAAAAAAAAAAAA

Rent 3 times column 1

AA  
AAAAAAAAAAAAAA

Advertising 3 times column 1

AA  
AAAAAAAAAAAAAA

Delivery Expense 3 times column 1

AA  
AAAAAAAAAAAAAA

Supplies 3 times column 1

AA  
AAAAAAAAAAAAAA

Telephone and Telegraph 3 times column 1

AA  
AAAAAAAAAAAAAA

Other Utilities 3 times column 1

AA  
AAAAAAAAAAAAAA

Insurance Payment required by insurance company

AA  
AAAAAAAAAAAAAA

Taxes, incl. Social Security 4 times column 1

AA  
AAAAAAAAAAAAAA

Interest 3 times column 1

AA  
AAAAAAAAAAAAAA

Maintenance 3 times column 1

AA  
AAAAAAAAAAAAAA

Legal and other professional fees 3 times column 1

AA  
AAAAAAAAAAAAAA

Miscellaneous 3 times column 1

AA  
AAAAAAAAAAAAAA

Starting Costs You Have to Pay Only Once Leave column 2 blank



Fixtures and equipment	Fill in worksheet 3 and put total here
Decorating and redecorating	Talk it over with a contractor
Installation of fixtures & equipt	Talk to suppliers from who you buy these
Starting inventory	Suppliers will help you estimate these
Deposits with public utilities	Find out from utility companies
Legal and other professional fees	Lawyer, accountant, and so on
Licenses and offices permits	Find out from city what you have to have
Advertising and use promotion for opening	Estimate what you'll
Accounts receivable more	What you need to buy stock until credit customers pay
Cash expenses or purchases	For unexpected losses, special
Other and	Make a separate list enter total
Total Estimated Cash You Need To Start	Add up all the numbers in column 2

Getting Started

Your building

- \* Have you found a good building for your store?
- \* Will you have enough room when your business gets bigger?
- \* Can you fix the building the way you want it without spending too much money?
- \* Can people get to it easily from parking spaces, bus stops, or their homes?
- \* Have you had a lawyer check the lease and zoning?

#### Equipment and supplies

- \* Do you know just what equipment and supplies you need and how much they will cost? (Worksheet 3 and the lists you made for it should show this.)
- \* Can you save some money by buying second hand equipment?

#### Your merchandise

- \* Have you decided what things you will sell?
- \* Do you know how much or how many of each you will buy to open your store with?
- \* Have you found suppliers who will sell you what you need at a good price?
- \* Have you compared the prices and credit terms of different suppliers?

#### Your records

- \* Have you planned a system of records that will keep track of your income and expenses, what you owe other people, and what other people owe you?
- \* Have you worked out a way to keep track of your inventory so that you will always have enough on hand for your customers but not more than you can sell?
- \* Have you figured out how to keep your payroll records and take care of tax reports and payments?
- \* Do you know what financial statements you should prepare?
- \* Do you know an accountant who will help you with your records and financial statements?

#### Your store and the law

- \* Do you know what licenses and permits you need?
- \* Do you know what business laws you have to obey?
- \* Do you know a lawyer you can go to for advice and for help with legal papers?

#### Protecting your store

- \* Have you made plans for protecting your store against thefts of all kinds--shoplifting, robbery, burglary, employee stealing?
- \* Have you talked with an insurance agent about what kinds of insurance you need?

#### Buying a business someone else has started

- \* Have you made a list of what you like and don't like about buying a business someone else has started?
- \* Are you sure you know the real reason why the owner wants to sell this business?

- \* Have you compared the cost of buying the business with the cost of starting a new business?
- \* Is the stock up to date and in good condition?
- \* Is the building in good condition?
- \* Will the owner of the building transfer the lease to you?
- \* Have you talked with other business owners in the area to see what they think of the business?
- \* Have you talked with the company's suppliers?
- \* Have you talked with a lawyer about it?

#### Making It Go

#### Advertising

- \* Have you decided how you will advertise?  
(Newspapers--posters--handbills--radio--mail?)
- \* Do you know where to get help with your ads?
- \* Have you watched what other stores do to get people to buy?

#### The prices you charge

- \* Do you know how to figure what you should charge for each item you sell?
- \* Do you know what other stores like yours charge?

#### Buying

- \* Do you have a plan for finding out what your customers want?
- \* Will your plan for keeping track of your inventory tell you when it is time to order more and how much to order?
- \* Do you plan to buy most of your stock from a few suppliers rather than a little from many, so that those you buy from will want to help you succeed?

#### Selling

- \* Have you decided whether you will have sales clerks or self-service?
- \* Do you know how to get customers to buy?
- \* Have you thought about why you like to buy from some sales clerks while others turn you off?

#### Your employees

- \* If you need to hire someone to help you, do you know where to look?
- \* Do you know what kind of person you need?
- \* Do you have a plan for training your employees?

#### Credit for your customers

- \* Have you decided whether or not to let your customers buy on credit?
- \* Do you know the good and bad points about joining a credit-card plan?
- \* Can you tell a deadbeat from a good credit customer?

#### A Few Extra Questions

- \* Have you figured out whether or not you could make more money working for someone else?
- \* Does your family go along with your plan to start a business of your own?
- \* Do you know where to find out about new ideas and new products?

## Starting and Managing a Business From Your Home

### Introduction: "There's No Place Like Home"

The cottage industry, an old-fashioned enterprise, is enjoying a revival so strong that it's difficult to find out just how many Americans are now working at home. Estimates range from two to five million and the numbers may double by 1990.

Because women now enter business at a rate five times faster than men, the trend of operating from home is growing. A natural starting place for many businesses seems to be the garage, basement, or den. A recent Census Bureau study showed that over 300,000 women's businesses are operated out of the home.

Homemakers, hobbyists, retirees, people interested in a second income, and the disabled are just a few of the groups attracted to home enterprises. A young mother's craft business began when she started appliqueing decorations on her children's clothes. A retired government worker bought 36 beehives and sold honey to local health food stores and at craft fairs. A teacher did typing and secretarial jobs for her husband and friends until she realized the potential market and opened a full-time secretarial service from her apartment. Others have become home business owners by using their skills in catering, counseling, teaching, day care, sewing, writing, photography, consulting, market research, and landscape design.

The list of services that have been successfully operated from home is endless: chimney sweeping, maid services, messenger services, wake-up and answering services, home nursing, mail order businesses, party planning, dog grooming, kitchen and closet planning and organizing, and others too numerous to mention. As you explore the questions asked in the first chapter, "Home Entrepreneurship: Is It For You," let your thoughts run freely through the possibilities until you can target exactly the right type of business for your skills, your home space, your market, and your part of the country.

### Home Entrepreneurship: Is It For You?

The first step in deciding whether to start a business is to ask yourself this important question: "Do I have what it takes to be an entrepreneur?"

Studying the characteristics of successful business owners will help you to tell whether your personality traits, experiences, and values are similar to those who have succeeded. And assessing your experience, skills, and life goals will also help you decide if you want to invest the energy, time, and resources that successful entrepreneurship requires.

Who is the "Typical" Entrepreneur?

What makes an entrepreneur successful is a hotly debated and vigorously researched subject. In *Success And Survival In The Family-Owned Business*, Pat B. Alcorn, an expert on entrepreneurial problems, has developed the following questionnaire to help you determine your "Entrepreneurial Quotient." Write your answers in the margin. Then read on to discover what she believes characterizes the typical entrepreneur:

Do you reconcile your bank account as soon as the monthly statement comes in?

Entrepreneurs are careful about money. They usually know how much money they have so they can seize opportunities on short notice. They know what things cost, whether prices are going up or down, and whether they are getting a bargain.

Did you earn money on your own from some source other than your family before you were 10 years old?

Most people who are going to make money in business show an affinity for making money at an early age--by babysitting, selling lemonade, delivering newspapers, or some such strategy.

Do you get up early in the morning and find yourself at work before others are out of bed?

Entrepreneurs sleep and eat enough to keep up their strength, but they don't usually tarry at these pursuits.

Do you tend to trust your hunches rather than wait until you have a lot of information on hand?

Hunches are judgments based on factors that cannot be quantified. A big part of entrepreneurship seems to be risk-taking based on these hunches.

Do you keep new ideas in your head instead of writing them down?

Entrepreneurs keep a lot of things in their heads, including their most creative ideas.

Do you remember people's names and faces well?

Ease in remembering names and faces is very important in the business

world.

Were you good in "hard" subjects--mathematics, biology, engineering, accounting, and so forth--in school?

People who major in business administration in college are more likely to be successful entrepreneurs than anyone else. They prefer subjects in which the answers are conclusive rather than open-ended conclusions full of contingencies.

In school, did you pretty much stay away from such organizations as Scouts and student government?

Most entrepreneurs tend to be loners rather than joiners, unless joining is a useful tactic for making contacts and gathering business information.

In courting the opposite sex, did you tend to go for one person at a time as opposed to playing the field?

Most entrepreneurs preferred one person because to play the field would have taken too much time away from business activities.

Do you close deals with a handshake rather than insisting on written contracts and guarantees?

Good entrepreneurs are often comfortable with something less binding than written contracts. When the only bond is a word, it becomes a matter of honor, and no entrepreneur can afford to lose honor.

Do you devote considerably more time and thought to work than to other activities, such as hobbies?

Entrepreneurs may have some leisure time activities, but their principal hobby is their work.

A similar test was developed by John Komives, director of Milwaukee's Center for Venture Management. Again, write your answers in the margin, then read on to see the expert's answers

Was your parent an entrepreneur?

Having a close relative who was an entrepreneur is the single most telling indicator of a successful entrepreneur.

Are you an immigrant?

There is a high correlation between immigrants and entrepreneurs. In this sense, "immigrant" includes not only those who were born outside the United States, but also those who moved from farm to city or from the Midwest to the West Coast.

Did you have a paper route?

The entrepreneurial streak shows up early in life.

Were you a good student?

Typical entrepreneurs were anything but model students and often were expelled from school.

Do you have a favorite spectator sport?

The best answer is "no." Entrepreneurs are poor spectators. They often excel at individual, fast-paced sports such as skiing or sailing.

What size company do you now work for?

The typical entrepreneur comes from a medium-sized company--30 to 500 employees.

Have you ever been fired?

Entrepreneurs make poor employees. That's why they become entrepreneurs.

If you had a new business going, would you play your cards close to the vest, or would you be willing to discuss problems with your employees?

Typical entrepreneurs have a secretive streak. If they confide in anyone, it is likely to be another entrepreneur.

Are you an inventor? A Ph.D.?

Not a positive indicator. Inventors fall in love with their products, Ph.D.s with their research.

How old are you?

The typical age for starting a business seems to be 32-35.

When do you plan to retire?

In still another study, Jeffry A. Timmons asserts that entrepreneurs are people who have high energy, feel self-confident, set long-term goals, and view money as a measure of accomplishment. They persist in problem solving, take moderate risks, learn from failures, seek and use feedback, take initiative, accept personal responsibility, and use all available resources. They compete with themselves and believe that success or failure lies within their personal control or influence. They can tolerate ambiguity.

Are You Ready, Willing, and Able?

Now that you have studied the characteristics of others who have succeeded, survey your reasons for wanting a home-based business. Are you dissatisfied with your current job? What are your skills? What is your business

experience, especially in the business you want to start? What are your life goals? What resources do you have that might help?

Answering these questions will provide reality testing for ideas that can sound incredibly glamorous when chatting with friends or seductively attractive when you are irritated or bored by your present job.

Order a copy of the SBA pamphlet Checklist For Going Into Business, MA 2.016 (see For Further Information). Answer the questions and discuss your reactions with friends and family. Or better yet, ask several people close to you to think carefully about you and fill out the checklist for you. Have you underestimated your abilities? Overestimated them? Sometimes an evaluation by a friend is more useful than a self-evaluation.

How does your family react to the idea of a home business? Will you expect them to help out? What changes would your business use of the house mean for them? Will you have to remodel to create a usable business space?

What resources are available to you? Will you start by keeping your job and "moonlighting" for a while? Do you have a small nest egg, inheritance, or retirement income to live on until you get the business going? Do you already own tools or machines that will help (for instance, a word processor for a secretarial business or professional cameras and a darkroom for a commercial photography business)? Are you able to go back to school for training if necessary? Have you built up a network of contacts and possible customers through your previous lines of work or will you be starting from scratch?

Answering these questions honestly and completely will help you assess not only your chances for success but also which type of home-based business to choose. For instance, if your past professional life and contacts are all in the educational, teaching, child-oriented school area, then you should have powerful reasons for leaving that and opening a mail-order seed business. Possibly a tutoring business or a tot exercise franchise would use more of your resources and networks. On the other hand, if your assessment of your life goals and preferences helps you realize that you are burned out from working with kids, then perhaps a business planning birthday parties could later be built into a general party planning and catering business. You would be using your old contacts to build a long-range business plan that focuses on a service business for adults.

### The Advantages of Home-Based Business

Why have millions of Americans chosen to work and live in the same place?

Why are cottage industries sprouting faster than we can count them? Some home-based businesses start by accident rather than by conscious design. Secretarial services, day-care centers, craft ventures, and the like may start out as weekend activities in the recreation room. After a while



their owners are surprised to see how profitable or enjoyable the venture has become. The glimpse of a healthy market lures them into a full-time venture. This low-risk, low-overhead, gradual kind of start-up is very attractive to new business people.

Many home-based business people cite decreased commuting time and other lessened business expenses as advantages for working at home. If your place of work is just 30 minutes away, that's five hours a week in commuting time, many dollars in gasoline and car maintenance or transit fares, and untold stress fighting traffic. Getting out of the high-fashion rat race is a plus for many who dislike having to dress up and continually buy new clothes to feel comfortable in settings outside the home.

Homemakers--mostly women but also an increasing number of men--are choosing a home-based business in order to have a more flexible lifestyle and to be closer to family. A parent who has a home office can eat lunch with the children or more easily attend special school or sports events. The home-based business person has more control over work hours than someone with a 9 to 5 job. Night owls who like to work until 3 a.m. can then sleep late (remembering, of course, to turn on the answering machine and let customers know the business hours). On the other hand, early birds can work without the usual disturbance from the telephones.

The tax advantages of operating a business from home are numerous but sometimes complicated. Wise business owners keep careful records and work with accountants, attorneys, and financial planners to make sure they are filing for the legal maximum write-offs and benefits.

#### The Disadvantages of a Home-Based Business

If you were hard at work in an office downtown, it is unlikely that three children would come storming in to ask for snacks or that you would end up using the ironing board for a bookshelf or have to think twice about hiring others because they might resent working at your kitchen table. These are just a few of the problems that make the glamour of working at home fade fast. Some disadvantages of working at home can be minimized by self-discipline, by setting clear limits with family and friends, and by projecting a professional image. Other disadvantages "come with the turf" and just have to be lived with. If a delivery man comes to the door, you will probably be the one to interrupt your work and sign for the package.

It takes time and discipline to establish steady, at-home work patterns. Often it seems easier to water the plants or do the laundry than to call a client, design a new brochure, or prepare bills for customers whose work you've completed. Without the deadlines imposed by supervisors or peers,

it  
can be hard to do the least appealing jobs on your list. To make matters worse, others may not take you seriously. Neighbors may stop by to chat or friends may call your business number knowing you will answer. Without supervisors or managers, you are the one who must set limits and plan your time. There also is the problem of isolation. While you are now your own boss, you won't have the chats, the parties, the companionship of fellow workers. Losing such social contact requires adjustments.

As the business grows and changes, the home entrepreneur has to put up with cramped or inappropriate space. No more simply putting in a request for a bigger file cabinet or a new copy machine; now you must visit showrooms or garage sales, evaluate features, compare prices, and probably pick the item up yourself.

Your teenager may resent having to keep the stereo low because you're meeting with a client in the next room. Your spouse may be irritated by having to fry that freshly caught trout on the backyard grill so your office won't smell of fish. Your son may not want to give up the recreation room pool table so you can cut out 100 doll patterns this weekend. Neighbors may comment on the extra traffic your customers create on their quiet street. Family privacy and lifestyle patterns may be disturbed. And you will probably find yourself wrestling with laws and regulations you never dreamed could exist before you went into business.

#### Your Professional Image

Developing a professional image may be hard if you work out of your home. Projecting a businesslike image is an important part of building credibility with your customers and contributes to your own professional self-image. Design a logo or have one designed; order business cards and stationery. Set regular business hours. Use an answering machine or answering service. If other members of the family also answer the phone, make sure they know what to say. Have a businesslike office or "showroom" if you meet customers face to face. Consider referring to your apartment number as your "suite number" or rent a post office box rather than using your street address. Such practices might improve your chances of doing business with potential customers.

#### Your Next Steps

Now that you have reflected on the characteristics of successful entrepreneurship and assessed your skills, experience, and life goals, it's time to plan your next steps. Ask yourself: Given the disadvantages of working out of my home, do I still want to? Now that I know more about what's involved in starting a business, is it still for me? Do I need further training or experience? Should I begin part-time in order to test

the waters, check out market potential, or refine my product or service?  
Do

I need more time to research possible products or services? Have I decided on a particular business? The next chapter will help you define your business, the market, and the price to charge for your product or service.

Others Have Succeeded--Why Not You?

A former teacher tells how she started her own tutoring business:

I taught languages in high school for seven years. Whenever I needed a little extra money, or during summer vacations, I tutored individual students. As my reputation grew, people began to ask me if I could recommend tutors in other subjects.

As my enthusiasm for teaching in public schools waned, I began to research the possibility of a tutoring business. I started one summer by turning my second bedroom into an office and having stationery printed. Summer is a peak time because parents hire tutors to help their kids catch up on subjects. By the end of that summer I was managing 48 tutors in 23 different subjects or grade levels all over the metropolitan area. I hired a part-time assistant who worked at the kitchen table. We added other services, such as classes to help high-school students prepare for national exams. Operating from home was perfect for me since I needed to keep my overhead low and keep a good cash flow to be able to pay my tutors.

A computer programmer tells his story:

I longed to get enough work doing computer programming so that I could avoid the long commute to work and be closer to my two young boys as they grew up. I started working in an office I built in the basement doing small jobs and working for friends in the business who were up against tight deadlines. When I got my first big contract, I took the leap and gave notice. Now, two years later I've established a good track record with clients and have hired two others who work at terminals in my recreation room. I like being able to work late at night after the family is asleep. And I enjoy being around when the kids get home from school. I don't need a fancy downtown office. If I meet with a client. I make sure it's at his office, not mine.

Answering The Big Question: What? Who? Where? How? and How Much?

What's the perfect home business for you? You've listed your skills. You've outlined your interests. You've described your family's preferred lifestyle. You've come up with a business idea. Next, consider such questions as: Are there customers for my product or service? How do I know? How will I find them? Who are my competitors? What will I charge? How will I promote my product or service? Finding the answers to these questions

is  
the challenging and sometimes tedious homework that will help you  
determine  
your chances for success, and whether you should look for another more  
marketable idea.

What Is My Product?

"I bathe and groom poodles and small dogs." "I design, construct, and  
sell  
roll-top desks." "I provide accounting services to small business  
clients."  
"I make dried flower arrangements." "I teach intermediate and advanced  
piano to children." "I design and implement direct mail advertising  
campaigns for small businesses and nonprofit organizations."

The first step in creating a business is to decide what your product is.  
What are you selling? Practice writing a short, specific statement  
describing your product or service. Getting a clear idea of a business  
concept is one of the most difficult tasks in creating a business. Your  
statement may change several times as you experiment with the market and  
test your skills. Instead of "I make toys," you may want to narrow your  
product line to "I make wooden dolls." Instead of "I write software  
programs for small business needs," you may decide to tap into a big  
market  
and "provide training for employees of small businesses in the use of  
accounting packages." See how it feels to describe your product or  
service  
to family, friends, potential customers, and fellow business people. Is  
your description clear and brief? Can you say it with confidence and  
enthusiasm?

Who Will Buy It?

To develop and test your business idea, answer the question "Who will  
buy  
my product or service?" Make a list of potential customers: individuals,  
groups, segments of the population, or other businesses that need your  
product or service. If you are making fabric-covered lap boards for  
people  
confined to bed, how will you quickly and inexpensively find a market?  
Through hospitals or home nursing care organizations? Through craft  
stores  
by displaying them as gift items? In mail order catalogues? Is there a  
market avenue that will reach children? Ask friends and colleagues for  
help  
in brainstorming all the possible markets (customers) and uses for your  
product or service.

Who Is the Competition?

Your business planning must also include an up-to-date analysis of your  
competition. Why? Because you need to plan your market position--how you  
will fit into the marketplace. Will your product or service be cheaper  
or  
more expensive than that of the major competitions? Will it be more  
durable? Will you be open during hours that your competitors are closed?  
What benefits can you build into your product or service that your  
competitors don't offer? Will you do rush jobs?

In planning your business, look for a unique niche that will give you

freedom from strong competition or that will make your product or service more valuable than others in the market. If you plan to open a day-care center and find that none in your area is open before school, early opening might make your service more competitive. If you discover that local caterers have overlooked the office party market, you might highlight that in your brochure. The more you can learn about your competition, the better you'll be able to decide how to position yourself in the market.

Newspaper ads and trade magazines are other good sources of market information. Check also with the Chamber of Commerce, your county office of economic development, the Census Bureau, and business and professional organizations to gather market and pricing data.

Where Are the Buyers? How Can I Find Them?

As you become more familiar with the competition, you will also be discovering where and how to find buyers. Whatever the type of home business you want to open, you will need to do market research to determine if there are buyers for your idea, where they are, and how to find them. (And in the process, you will also be gathering information on pricing.)

Visit your local library to compile local and county statistics on the size and makeup of your market. (While you are at the library, check out some books on marketing research so you will know what you are getting into.) Also, check those of the following resources that might have data about your product or service or the people who would use it:

Encyclopedia of Associates. 17th Edition. Gale Research Company, Book Tower, Detroit, MI 48226.

Ayer Directory of Publications. Lists trade publications by subject matter. Contact the sales, marketing, or research departments for buying patterns among their readers.

"Survey of Buying Power." Sales, Marketing, Management Magazine. July issue each year.

Thomas' Register. Lists companies by product and service line, organized geographically and alphabetically.

Directory of Business, Trade, and Public Policy Organizations. U.S. Small Business Administration, Office of Advocacy.

Department of Commerce Publications. Data User Series Division, Bureau of the Census, Washington, D.C. 20233.

County Business Patterns. U.S. Department of Commerce, Bureau of the Census. Available for each state.

When your marketing research is completed you will have 1) identified your potential customers; 2) found out all you can about their habits, needs, preferences, and buying cycles; and 3) decided how to reach them to generate sales.

How Much Shall I Charge?

Four main factors will help you decide what to charge for your product or service: 1) your direct and indirect costs; 2) the profit you want to make;

3) your market research data on competitors' prices; and 4) the urgency of the market demand. There is rarely an exact "right" price but rather an acceptable price range within which you will want to fall. Avoid the common mistakes made by many new business owners--charging too much or too little.

Use several approaches to arrive at a cost and "test" the price. If your ego is too involved, your price may be too high. On the other hand, if you have the attitude that "this is just a little something I do in my spare time" or "anybody could do this," then your price may be too low.

Here is a formula for setting a fair price. Calculate your price using other approaches, too, before you make a final decision on price:

Typical Pricing Formula

1. Direct Material Costs--Figure the total cost of the raw materials you have to use to make up your item. Figure the cost of a group of items and then divide by the number of items to find the cost per item. If you can easily and immediately determine the material cost of a single item, fine.

Some items are produced in batches, however, and it is easier to get an item cost by dividing the cost of a batch by the number of items eventually produced.

2. Direct Labor Costs--Figure what you pay to employees to produce the item (whether or not you have employees now). You must assign a wage figure, even if you are the only one producing the item. Take the weekly salary you pay someone to produce the necessary number of items and divide it by the number of items. Add this figure to the Direct Material Costs total.

Materials + Labor = \$\_\_\_\_\_.

3. Overhead Expenses--These expenses include rent, gas and electricity, business telephone calls, packing and shipping supplies, delivery and freight charges, cleaning, insurance, office supplies, postage, payroll taxes, repairs, and maintenance. The accuracy of your costing depends on estimating logical amounts for all categories of expenses. If you are working at home, figure a portion of your total rent or mortgage payment (in proportion to your work space and storage areas), or assign a reasonable, competitive rent figure for the same amount and type of space.

List all overhead expense items and total them. Divide the total overhead figure by the number of items per month (or time period you used above). The answer is your overhead per item.

$$\text{Overhead} + \text{Materials} + \text{Labor} = \text{Total Cost/Item}$$

4. Profit--Include an amount added to the cost of each item so you won't end up just breaking even or making the employees' wages. Check your competition and see what they are charging. (Retailers generally double the wholesale price.) If your product is a little better than the competition, charge a little more. If your product is comparable, price it similarly. Remember, you will get the profit from each sale, in addition to the salary figure. Add the profit figure you have chosen to the total cost per item to get your total price per item.

$$\text{Profit} + \text{Total Cost/Item} = \text{Total Price/Item}$$

Remember, the main purpose in operating a business is to make a profit. Don't undersell your product or service just because "I'd be baking cakes anyway" or "I'm just starting out" or "I work out of my home." If you have a new, rare, handmade product or personalized service, the demand may be so high that customers are willing to pay a little more.

#### Promotion

Promotion is an overall, long-range plan designed to inform potential customers about what you have to sell. Advertising is usually thought of as the paid communication part of the promotion program.

To develop a total promotional campaign you must answer these questions: 1)

What image or message do I want to promote? 2) What are the best media and activities for reaching my potential customers? 3) How much time and money can I spend on the effort?

Develop a long-range, consistent program for building image and reaching customers. Your image should be reflected in your business card, logo, stationery, brochure, newsletter, telephone answering service, signs, paid ads, and promotional activities.

Word-of-mouth recommendations from satisfied customers are the very best promotion any business can have. Consider which promotional tactics will build the confidence and image you are looking for--giving speeches and interviews (often good for counselors, teachers, lawyers, consultants), having an open house or holiday home sale (for craftspeople), holiday recitals or shows (for music and dance teachers or day-care operators), free demonstrations and samples (for retailers, decorators, caterers).

Several small ads may have more impact than one large, splashy ad.

Conduct

a campaign rather than having a one-shot ad or event. If you hire a public relations firm, look for one that can give you personal attention and develop a total marketing plan for you, not just a couple of ads. The plan

Managing Your Business: Structure, Recordkeeping, Taxes, and Insurance

You're The Boss.

A telling sign on a new businessowner's desk read: "Yesterday I didn't even

know how to spell ENTREPRENEUR and now I am one!" Now that you have decided to open a home-based business, all decisions will be your responsibility, not just those you previously enjoyed because they involved

your area of expertise. Of course, as a day-care operator you already knew

how to soothe an upset child, but as the owner of that business, do you know when to file your taxes? As a consultant you have over 20 years' experience advising organizations on personnel matters, but do you know if

it's to your advantage to incorporate? You are an expert at word processing, but do you know how to develop an efficient recordkeeping and

billing system? You are the boss now and the good health of your business

depends on your management skills.

Choosing Your Form Of Business Organization

One of the most important decisions you will make is how to set up the business as a 1) sole proprietorship, 2) partnership, or 3) corporation. Remember, the small business owner risks it all, no matter what form of organization.

The forming of a business organization depends on the following factors:

- \* Legal restrictions
- \* Need for capital
- \* Liabilities assumed
- \* Number of people associated in the venture
- \* Kind of business or operation
- \* Tax advantages or disadvantages
- \* Intended division of earnings
- \* Perpetuation of the business

Most home-based businesses are sole proprietorships or partnerships, but a

comparison of the advantages and disadvantages of each type of organization follows:

A sole proprietorship is the least costly way of starting a business.

You

can form a sole proprietorship by finding a location and opening the door

for business. There are the usual fees for registering your business name

and for legal work in changing zoning restrictions and obtaining



necessary  
licenses. Attorney's fees for starting your business will be less than  
for  
the other forms because less document preparation is required.

#### Sole Proprietorship

Advantages	Disadvantages
* Easiest to get started	* Unlimited liability
* Greatest freedom of action	* Death or illness endanger business
* Maximum authority	* Growth limited to personal energies
* Income tax advantages in very small firms	* Personal affairs easily mixed with business
* Social Security advantage to owner	

A partnership can be formed by simply making an oral agreement between  
two  
or more persons, but such informality is not recommended. Legal fees for  
drawing up a partnership agreement are higher than those for a sole  
proprietorship, but may be lower than incorporating. You would be wise,  
however, to consult an attorney to have a partnership agreement drawn up  
to  
help resolve future disputes.

#### Partnership

Advantages	Disadvantages
* Two heads better than one	* Death, withdrawal, or bankruptcy of one partner endangers business
* Additional sources of venture capital	* Difficult to get rid of bad partner
* Better credit rating than corporation of similar size	* Hazy line of authority

You can incorporate without an attorney, but you would be unwise to do  
so.  
You may think a small family corporation does not need an attorney, but  
an  
attorney can save members of a family corporation from hard feelings and  
family squabbles. Attorney's fees may run high if organization problems  
are  
complex. The corporate form is usually the most costly to organize.

#### Corporation

Advantages	Disadvantages
* Limited liability for stockholders (while true for big business, may not be for small business)	* Gives owner a false sense of security
* Continuity	* Heavier taxes
* Transfer of shares	* Power limited by Charter
* Easier to raise capital	* Less freedom of activity
* Possible to separate	* Legal formalities
	* Expensive to launch

business functions into  
different corporations

## Recordkeeping

Keeping accurate and up-to-date business records is, for many people, the most difficult and uninteresting aspect of operating a home-based business. If this area of business management is one that you anticipate will be hard for you, plan now how you will cope. Don't wait until tax time or until you are totally confused. Take a course at the local community college, ask a volunteer SCORE (Service Corps of Retired Executives) representative from the Small Business Administration to help you in the beginning, or hire an accountant to advise you on setting up and maintaining a recordkeeping system.

Your records will be used to prepare tax returns, make business decisions, and apply for loans. Set aside a special time each day to update your records. It will pay off in the long run with more deductions and fewer headaches.

If your business is small or related to an activity that is usually considered a hobby, it's even more important that you keep good records. The IRS may decide that what you are doing is only a hobby, and you won't be allowed to deduct expenses or losses from your home-produced income at tax time. So keep records of all transactions in which you spend or bring in money. Pick a name for your business and register it with local or state regulatory authorities. Call your city hall or county courthouse to find out how.

Your records should tell you these three facts:

- \* How much cash you owe,
- \* How much cash you are due, and
- \* How much cash you have on hand.

You should keep five basic journals:

1. Check register--Shows each check disbursed, the date of disbursement, number of the check, to whom it was made out (payee), the amount of money disbursed, and for what purpose.
2. Cash receipts--Shows the amount of money received, from whom, and for what.
3. Sales journal--Shows the business transaction, date, for whom it was performed, the amount of the invoice, and the sales tax, if applicable. It may be divided to indicate labor and goods.

4. Voucher register--A record of bills, money owed, the date of the bill, to whom it is owed, the amount, and the service.

5. General journal--A means of adjusting some entries in the other four journals.

#### Choosing a Recordkeeping System

Set up your records to reflect the amount and type of activity in your particular business. There are a wide range of pre-packaged recordkeeping systems. The SBA's pamphlet Small Business Bibliography No. 15 (see "For Further Information") lists many such systems. The most useful system for a small, home-based business is usually based on what is called the "One-Write System." It captures information at the time the transaction takes place. These One-Write Systems are efficient because they eliminate the need for recopying the data and are compatible with electronic data processing if you should decide to computerize.

Even though you may be small and just beginning, it is probably wise to consult an accountant to help you decide which recordkeeping system is best

for your business. Once it is set up, you can record the daily transactions

or periodically have a bookkeeper post your daily transactions in your General Ledger and prepare your financial statements.

Be sure to establish a separate bank account for your business--even before

the first sale. Then you will have a complete and distinct record of your

income and expenditures for tax purposes, and you won't have to remember which expenses were business and which were personal.

It is important to choose a recordkeeping system that you understand and will use. It will help you see how well the business is doing and is the first step in responsible financial management.

#### Tax Obligations And Benefits

Significant tax savings are available to the home-based businessowner in the form of deductions, credits, and depreciation allowances. The time, money, and energy you put into keeping good records and keeping current on

tax laws will be worthwhile and ensure that you operate within the law. You

will need to plan for income tax, social security (all self-employed persons must pay a federal self-employment tax), employees' taxes (if you

hire anyone), property tax on your home and business-related taxes, such as

sales tax, gross-receipts or inventory tax (in some states and localities),

and excise or individual item taxes (on certain commodities).

The Internal Revenue Service supplies the following free booklets (and runs

free workshops) to give you details on your specific obligations:

- \* Your Federal Income Tax (Publication 17)
- \* Tax Guide for Small Business (Publication 334)
- \* Business Use of Your Home (Publication 587)
- \* Employer's Tax Guide (Circular E)
- \* Self-Employment Tax (Publication 533)
- \* Tax Information on Retirement Plans for the Self-Employed (Publication 560)
- \* Tax Information on Depreciation (Publication 534)
- \* Information on Excise Taxes (Publication 510)
- \* Tax Withholding and Estimated Tax (Publication 505)

There are various federal and state forms you will need to fill out to start a small business. The federal government requires you to fill out several forms including the following:

- \* Application for Employer Identification Number (Form SS-4) (If you have employees or are subject to excise tax)
- \* Employer's Annual Unemployment Tax Return (Form 940)
- \* Employer's Quarterly Federal Tax Return (Form 941)
- \* Employee's Withholding Allowance Certificate (W-4)
- \* Employer's Wage and Tax Statement (W-2)
- \* Reconciliation/Transmittal of Income and Tax Statements (W-3)

As a home-based business owner you should be aware that every business decision--each purchase and transaction you make--has tax implications or built-in tax advantages or disadvantages. Deductions may be available for home maintenance and improvements; automobile expenses; telephone expenses; office and work space; inventory space; major purchases, such as a computer; and a wide variety of other items such as uniforms, coffee service, trademarks, a safe deposit box, credit bureau fees, and business cards.

Each business situation is different and tax laws change, so consult up-to-date references, a trusted attorney, and an accountant who can advise you on your particular obligations and benefits.

#### Insurance

Insurance helps to safeguard your business against losses from fire, illness, and injury. You cannot operate without it. Talk with an insurance representative about your business needs. Check with the insurance carriers on your home policy and make sure business use of your home is compatible with your homeowner's policy. In addition to a homeowner's policy (personal plan), now that you have a business, you will need a commercial policy for full protection. Discuss these other possible needs with your agent:

- \* Product Liability Coverage--to protect you in case

your product causes injury to the user

- \* Auto Liability and "Non-owned" Auto Liability Insurance--if a car is ever used to support the business in any way
- \* Medical Payments Insurance--payable if someone is injured in your home whether or not it was your fault
- \* Worker's Compensation--if you have employees
- \* Business Interruption Insurance or Earnings Insurance--in case your business is damaged by fire or some other cause and you must totally or partially suspend operations
- \* Disability Income Protection--a form of health insurance in case you become disabled
- \* Business Life Insurance--to provide funds for transition if you die

Be sure to keep all your insurance records and policies in a safe place--either with your accountant or in a safe deposit box. If you keep them at home for convenience sake, then give your policy numbers and insurance company names to your accountant or lawyer or put it in your safe deposit box.

Final advice for the wise business person is to read and understand the fine print in all policies and to reevaluate business insurance needs about every six months.

#### Other Considerations

Another aspect of planning is sheltering tax dollars through a Keogh Plan or corporate pension and profit-sharing plans, if your business is incorporated, or a retirement plan.

If you have a partnership, consider making a Buy and Sell Agreement with your partner(s). This agreement requires the surviving partner(s) to buy, and the heirs to sell, the deceased partner's interest. The surviving partner(s) then becomes the sole owner(s) and the heirs receive cash for their share of the business.

#### Dealing With Laws: Zoning, Licensing, Permits, and Others

Unfortunately, many home-based business people try to "slide" into business, saying "I'll just try it for a few months and see how things go" or "It's not really a business. I have only ten clients." This attitude can lead to a lack of planning and big disappointments. If you set up your studio, print business cards and flyers announcing classes, and then find that regulations make it illegal to operate out of your home, you may have

to start all over.

## Zoning

Before you start your home-based business, do a thorough investigation of the zoning laws in your community. Zoning regulations spell out activities permitted and prohibited in specific portions of a city or county. Call your town hall, zoning office, or local library to get a copy of zoning laws. Find out the structure of your local zoning groups. Most areas have Planning, Zoning, and Appeals Boards.

If the home business you are planning conforms to zoning regulations, then all you need to do is keep abreast of new proposals that may affect your situation. It's a good idea to stay in touch with others operating from their homes by joining business organizations or neighborhood groups in case you ever need to band together to propose or oppose new regulations. Maintaining a low profile and friendly relations with your neighbors will result in more support from them should adverse regulations affecting your business ever be proposed.

If through your research you discover that the home business you are planning would violate the zoning code, there are several possible ways to proceed. You might wish to check with an attorney who specializes in zoning law to look for a legal way around the regulation. You might decide to apply to the Zoning Board for a variance or exception. Or you may be able to change your business enough to make the operation fit the law. If the regulation outlaws businesses that employ people other than the owner at home, maybe you can have employees take work to their own homes. If your business will create too much traffic, consider another strategy for product distribution. If your business will create too much noise, maybe you can soundproof your house. At last resort, ask yourself "Is it worth it to organize a drive to change the law?" Considering the rapid growth in the number of home-based businesses, you just might find other entrepreneurs who are also interested in submitting a change in the regulations to the Zoning Board. Go to meetings of the Board and try to identify the person who appears most active and most sympathetic to your position.

In the unfortunate and unlikely (most zoning officers don't have time to chase people who aren't bothering anybody) event that you are issued a "cease and desist" order, you should: 1) file an appeal immediately with the Appeals Board (if you interpret the regulations differently than they do); or 2) submit a change in the regulation to the Zoning Board to allow your business, which may enable you to continue to operate without fines until the Board reaches a decision. You may need a lawyer if you are not entirely familiar with the regulations and the workings of the Board.

Cultural and national trends point in the direction of zoning

regulations that allow quiet, nonpolluting, low-traffic kinds of home businesses. More and more corporations are employing people to work at home. Most neighborhoods will adopt a "live and let live" attitude if you keep your premises neat and quiet and don't create traffic and parking problems.

#### Keeping Up With Zoning Legislation

There are two ways to keep up with zoning legislation in your community (and with other topics of interest to home-based entrepreneurs). One way is to read local newspapers, especially the business section and the local or "neighborhood" sections. Be sure you notice local items about such things as proposed subway stations or the county's plan for revitalization. Changes like these could eventually influence zoning in your area. The other way to keep abreast of trends and zoning issues is to join the local chapter of a business group, such as the Rotary Club, the National Association of Women Business Owners, the National Family Business Council, or a Business and Professional Women's Club. Through newsletters, meetings, and friendships that develop, you will hear all the latest local (and national) issues discussed while you learn valuable business skills and make useful contacts.

#### Working With Professionals

Even the smallest and newest business needs help from at least two kinds of specialists: an attorney and an accountant. Depending on your type of business and your skills you may, from time to time, ask the advice of other professionals, such as a direct mail or marketing specialist, an insurance representative, management consultant, a computer specialist, a realtor, a public relations expert.

Several guidelines will hold true no matter what type of expert you are dealing with: 1) Interview professionals to see if you will be comfortable working with them. Make sure they have served other small businesses similar to yours. Find out ahead of time exactly what service you are buying, what the working relationship will be, and what fees will be charged. 2) Be completely honest about your business situation. Advice based on partial or incorrect information is no advice at all. If you are having problems, don't be embarrassed. If your sales are down, give the experts all the information you have and work as a team to solve the problem. If business is good, don't be afraid that professionals will steal your idea or expect a raise. Build a trusting, businesslike relationship. 3) Expect the professionals you hire to spend at least some of their time teaching you and explaining complex concepts. But don't expect to be spoon-fed or delegate all decisions to them. Take a course at the local community college in recordkeeping and taxes or public relations to develop

more skill in areas where you are inexperienced. 4) Keep your appointments and pay your bills promptly.

#### Your Lawyer

To find a lawyer who is familiar with businesses of your size and type, ask for a referral from a business colleague, your accountant, the local

A lawyer can help you decide which is the most advantageous business structure (sole proprietorship, partnership, or corporation). He or she can help you with zoning, permit, or licensing problems; health inspection problems; unpaid bills; contracts and agreements; patents, trademarks, copyright protection; and some tax problems. Because there is always the possibility of a lawsuit, claim, or other legal action against your business, it is wise to have a lawyer who is already familiar with your business before a crisis arises. A lawyer experienced with your type of venture should also advise you on laws, programs, and agencies--(federal, state, and local)--that help small businesses through loans, grants, procurement set-asides, counseling, and other ways. He or she will tell you about unexpected legal opportunities and pitfalls that may affect your business.

In choosing a lawyer, experience and fee should be related. One lawyer may charge an hourly rate that, at first, looks cheaper than another lawyer's. However, because of a lack of experience in some area, the less expensive lawyer may charge a larger fee in the long run. Ask for a resume and check references. If you feel overwhelmed, take a trusted friend to the initial meeting to help you keep on track as you interview the lawyer about services and fees.

If you retain a law firm, be sure you understand who will work on your case and who will supervise the work. If junior lawyers handle your work, the fees should be lower. That's fine as long as you know an experienced attorney will be reviewing the case periodically.

Let your lawyer know that you expect to be informed of all developments and consulted before any decisions are made. You may also want to receive copies of all documents, letters, and memos written and received in your case or have a chance to read them in the lawyer's office.

Ask the attorney to estimate the timetable and costs of your work. You may wish to place a periodic ceiling on fees, after which he or she would call you before proceeding to do work that would add to your bill. Always have a written retainer agreement, describing just what you and the lawyer expect of each other.



## Your Accountant

Most businesses fail not for lack of good ideas or good will, but rather for lack of financial expertise and planning. Look for an accountant as you

would an attorney. Get referrals from trusted friends, business associations, or professional organizations. Discuss fees in advance and draw up a written agreement about how you will work together. Your accountant (along with your lawyer) can advise about initial business decisions, such as the form of the business. Your accountant will help set

up your books, draw up and analyze profit and loss statements, advise on financial decisions (e.g., buying a computer), and give advice on cash requirements for your start-up phase. He or she can make budget forecasts, help prepare financial information for a loan application, and handle tax matters.

Accounting firms offer a variety of services. If this is not an easy area

for you, the fees you pay will be well worth it. Most firms will maintain

books of original entry, prepare bank reconciliation statements and post the general ledger, prepare balance sheets and income statements on a quarterly or semi-annual basis, and design and implement various accounting and recordkeeping systems.

They will also get your federal and state withholding numbers for you, give instructions on where and when to file tax returns, prepare tax returns, and do general tax planning for the small business person.

Your accountant is your key financial advisor. He or she should alert you

to potential danger areas and advise you on how to handle growth spurts, how to best plan for slow business times, and how to financially nurture and protect your business future.

## State and Federal Laws That May Apply to Your Business

Most localities have registration and licensing requirements that will apply to you. A license is a formal permission to practice a certain business activity, issued by a local, state, or federal government. You may

have the type of business that requires a permit from the local authorities. There is often a small fee for licenses and permits (usually

\$15-25). A license may require some kind of examination to certify that the

recipient is qualified. Your business name must be registered and a sales

tax number must be obtained. Separate business telephones and bank accounts

are usually required. Of course, you will want to have the latter anyway for accurate bookkeeping purposes. If you have employees, you are responsible for withholding income and Social Security taxes. You must also

pay worker's compensation and unemployment insurance and comply with

minimum wage and employee health laws.

If your operations are intrastate, you will be concerned primarily with state and local, rather than federal, licensing. Businesses frequently subject to state or local control are retail food establishments, drinking places, barber shops, beauty shops, plumbing firms, and taxi companies. They are primarily service businesses and are subject to regulations for the protection of public health and morals. Your attorney can help you make sure you have complied with all licensing and permit requirements. Depending on your type of business you may have to comply with building and safety codes, too.

Think twice about the liabilities of operating without proper licenses and registrations. If you begin to advertise or are fortunate enough to "make the news" in some way, you will probably hear from a local official. You will pay with embarrassment, time, and money if your business is not properly licensed.

If you find legal regulations, permits, and licenses confusing, make sure you find some way to get the information you need to operate legally. Get help from your lawyer, accountant, business partner, or even your local librarian. This is not an aspect of business operations that can be delayed until you "get around to it." Your business reputation and financial standing are at stake.

#### Understanding the Financial Side

Who Needs Financial Planning? You do! All businesses run on money for the purpose of making money. A major reason for business failure is the lack of financial planning. Although it is nearly impossible to make exact estimates, approximate ones will help. The very process of thinking through these financial questions will develop your business acumen and lead to solid planning. Get your accountant involved in reviewing your plans and advising you, too.

#### Estimating Start-Up Costs

Begin your financial planning by estimating your initial or start-up costs. Include all items of a nonrecurring nature such as fees, licenses, permits, franchise fees, insurance, telephone deposit, tools, equipment, office supplies, fixtures, installation of fixtures and equipment, remodeling and decorating, funds for your opening promotional event if you plan to have one, signs, and, of course, professional fees for your attorney and accountant.

Depending on your type of operation, the amount of money you invest, and the energy you expect to put in (part-time to full-time) can determine

how

much working capital you will need. Many business experts say if you expect a profit in six months, double that time and be ready to operate without profits for twelve months to give yourself a cushion in case of unanticipated expenses or delays. Study the growth patterns of other similar business and ask for advice from your accountant and attorney.

#### Projecting Operating Income and Expenses

Next, estimate the "working" capital you will need to keep operating for six to twelve months. Operating expenses include salaries; expenses for telephone, light, heat, office supplies, and other supplies or materials; debt interest; advertising fees; maintenance costs; taxes; legal and accounting fees; insurance fees; business membership fees; and special services expenses, such as secretarial, copying, and delivery service.

It is a good idea to obtain typical operating ratios for the kind of business in which you are interested. Among the sources for such ratios are Robert Morris Associates, Dun & Bradstreet, Inc., the Accounting Corporation of America, trade associations, publishers of trade magazines, specialized accounting firms, industrial companies (for example, National Cash Register Co.), and colleges and universities. The typical ratios for your type of business combined with your estimated sales volume will serve as benchmarks for estimating the various items of expense. However, do not rely exclusively on this method for estimating each expense item. Modify these estimates through investigation and quotations in the particular market area where you plan to operate.

In addition to business operating capital, you will need to plan for reserve capital to cover personal expenses. This estimate will include all your normal living expenses, such as food, household expenses, car payments, rent or mortgage, clothing, medical expenses, entertainment, and taxes for you and your family.

After you have estimated start-up costs, working or operating capital needed for six to twelve months, and personal expenses and obligations, you may see that you need more start-up capital than you thought. What will you do? Discuss this with your accountant, attorney, and trusted business associates and family. Entrepreneurs secure needed capital in a variety of ways. You can:

- \* Get loans or gifts from family members or friends. Make businesslike, written agreements and be sure to disclose fully the potential risk as well as the possible profit.
- \* Apply for a bank loan. For this you will need a comprehensive statement of your personal financial condition and a business plan with financial projections to present

to the loan officer. If you need help in preparing your loan application, take a course for small business people at a local community college or visit your nearest SBA office to get assistance from a SCORE counselor.

- \* Apply for an SBA loan guarantee. The SBA is not a bank, but it does extend guarantees and may rarely participate in a loan when the bank is unable or unwilling to provide the entire financing itself. The SBA loan officer will ask you the same hard questions as a loan officer in a commercial bank and require the same carefully considered data on your personal finances, start-up costs, and business projections.
- \* Search for some sort of venture capital. For start-up entrepreneurs some prior managerial or entrepreneurial track record is usually necessary in order to get venture capital. The main disadvantage of venture capital is that you will probably have to give up between 50 to 90 percent ownership of the new business in return for the capital. A home business is extremely unlikely to attract venture capital.

#### Understanding Your Balance Sheet

Your Balance Sheet is a summary of the status of your business--i.e., its assets, liabilities, and net worth--at an instant in time. By reviewing your Balance Sheet along with the Profit and Loss Statement and Cash-Flow Statement, you will be able to make informed financial and business planning decision.

The Balance Sheet is drawn up using the totals from the individual accounts kept in your General Ledger. It shows what you have left when you pay all your creditors. Assets less liabilities equal capital or net worth. The assets and liabilities sections must balance--hence the name Balance Sheet. It can be produced quarterly, semi-annually, or at the end of each calendar or fiscal year.

While your accountant will be most helpful in drawing up your Balance Sheet, it is you who must understand it. Current assets are anything of value you own such as cash, inventory, or property that the business owner can convert into cash within a year; fixed assets are things such as land and equipment. Liabilities are debts the business must pay. They may be current (such as amounts owed to suppliers or your accountant) or they may be long-term (such as notes owed to the bank). Capital (also called equity or net worth) is the excess of your assets over your liabilities.

Prepare a Balance Sheet for your new business during the planning phase to estimate its financial condition at that time and also a projected one for

the first year of business. This will help you decide on the feasibility of your venture and make modifications to ensure profitability. You can also use these statements as part of the documentation in a loan application.

#### Understanding Your Profit and Loss Statement

Your Profit and Loss Statement is a detailed, month-by-month tally of the income from sales and the expenses incurred to generate the sales. It is a good assessment tool because it shows the effect of your decision on profit. It is a good planning tool because you can "try out" decisions on paper before actually going ahead.

The Profit and Loss Statement includes four kinds of information:

- \* The Sales information lists the number of units sold and the total revenues generated by the sales.
- \* The Direct Expenses category includes the cost of labor, materials, and manufacturing overhead (but not normal overhead).
- \* Indirect Expenses are the costs you have even if the product is not produced or the service is not delivered. They include the fixed costs or normal overhead of salaries, rent, utilities, insurance, depreciation, office supplies, taxes, and professional fees for your lawyers and accountant.
- \* Income or Profit is the last category on the Profit and Loss Statement. It is shown both as pre-tax and after-tax or net income. The IRS will look at your pre-tax figure, whereas your loan officer and you are more concerned with your after-tax figure.

Your Profit and Loss Statement should be prepared at the very minimum once a year--and more often in the beginning or growth stages of your business. It is a key document from which the economic health of a business can be determined. Make certain you do it properly and understand its meaning.

#### Understanding Your Cash Flow Statement

Your business must have a healthy cash flow to survive. Cash flow is the amount of money available in your business at any given time. To keep tabs on cash flow, forecast the funds you expect to disburse and receive over a given period of time. Then you can predict deficiencies or surplus in cash and decide how to respond.

A cash flow projection serves one other very useful purpose in addition to planning. As the actual information becomes available to you, compare it

to  
the monthly cash flow estimates you previously made to see how  
accurately  
you are estimating. As you do this, you will be giving your self  
on-the-spot business training in making more accurate estimates and  
plans  
for the coming months. As your ability to estimate improves, your  
financial  
control of the business will increase.

The creative business owner works with his or her accountant to use the  
information gleaned from all of these financial tools to make a variety  
of  
managerial decisions--decisions on buying supplies, expansion, when to  
hire  
more employees, how to get the best tax breaks, and many other important  
steps that will shape the future of the business.

#### Make it Easy on Yourself

Successful home-based business owners learn from experience--their own  
and  
that of others. In Jeffry A. Timmon's study of entrepreneurial  
personality  
characteristics (New Venture Creation: A Guide to Small Business  
Development), he notes that entrepreneurs are disappointed but not  
discouraged by failure. They use failures as learning experiences and  
try  
to understand their role in causing the failure in order to avoid  
similar  
problems in the future. Furthermore, Timmons asserts, entrepreneurs seek  
and use feedback on their performance in order to take corrective action  
and improve.

#### How to Learn From Experience

You can learn from experience in several ways:

First, work closely and creatively with professional advisors, such as  
your  
lawyer and your accountant. As you continually review your business  
records, you will see "mistakes," but you will also begin to develop  
skill  
in planning and managing.

Second, continue to learn about all areas of business operations,  
constantly acquiring new ideas. Most community colleges have short,  
inexpensive, practical courses for business owners in topics like  
"Financing a Small Business," "Choosing a Small Business Computer," and  
"Starting and Operating a Home-Based Business."

Third, get to know other business owners with similar needs or problems.  
Talking with others may be a way to avoid repeating the mistakes they  
have  
made and benefiting from their experience. Local and national  
organizations  
offer membership, social events, networking opportunities, newsletters,  
and  
seminars for homebased business owners. Through these organizations you  
can  
often advertise your product or service to other business owners. They

also  
provide a way to learn about services you may need, such as accounting, public relations, or a responsible secretarial service. These organizations offer updates in such areas as taxes and zoning in their newsletters and workshops.

#### Finding and Using Resources, Networks, and Support Groups

Start out with the attitude "Whatever my current business problem, I can find the solution. Somewhere there is information, a book, a person, an organization, or a government agency that can help." A word of warning though: finding resources and building networks can be very time-consuming.

Joining organizations can turn out to be expensive, especially if you are too busy to use their services and support once you join. So use this list to organize your search for resources useful to you, then pick and choose carefully what you decide to read, join, buy, or attend:

**Your Public Library:** Visit your local library. Get to know its resources.

In addition to books, many libraries offer free workshops, lend skill-building tapes, and become a central place to pick up catalogues and brochures describing continuing education opportunities for business owners. Ask the librarian for current copies of zoning regulations. Get familiar with new books and resources in your field (computers, health care, crafts, etc.) as well as in business skills (advertising techniques, financing, etc.) Look for magazines such as *In Business*, *Black Enterprise*, *Venture*, or *The Journal of Small Business Management*. Reading selectively is free. Subscribing to too many magazines may be expensive.

**Organizations:** A wide variety of local and national organizations have sprung up to serve the informational, lobbying, and networking needs of business entrepreneurs. Through meetings, services, or newsletters, groups such as the National Association of Women Business Owners, American Entrepreneurs Association, Business and Professional Women's Club, National Alliance of Home-based Businesswomen, and the National Association for Cottage Industry offer members everything from camaraderie to valuable "perks," such as group rates on health insurance. David Gumpert's book, *The Insider's Guide to Small Business Resources*, has addresses of many of these groups and other information on such resources.

**Government Resources:** Contact your local or district office of the U.S. Small Business Administration (SBA) to learn about SBA services and publications. The SBA also offers free or inexpensive workshops and counseling through SCORE is a volunteer program sponsored by the SBA through which retired executives who have management expertise are linked with owners/managers of small business or prospective entrepreneurs who need help.

The Department of Commerce, Bureau of the Census, Department of Defense (procurement), Department of Labor, IRS (ask for the free "Business Tax Kit"), Federal Trade Commission, and the Government Printing Office all have publications and services to inform and support you. Local and state government offices may also have services to help you. Addresses will be available in your telephone book, under U.S. Government, at your public library, or at the SBA office near you.

Community colleges: Most community colleges now have short, inexpensive, noncredit programs for entrepreneurs. The classes usually are convenient to business owners and are taught by experienced owners and managers.

As a home-based business person you can overcome feelings of isolation and give and receive valuable information if you tap into networks and resources. Being active in professional and trade associations will help to build a good marketing network for your service or product. Take the time and invest the money for memberships. Then continually evaluate which organizations and resources best serve your business information and networking needs.

#### Managing Time and Stress

Expect to encounter stress and time problems similar to those of other business owners but accentuated by the fact that you work at home. Follow these guidelines to make it a little easier on yourself:

1) Plan your time and establish priorities on a daily "to do" list. Decide what your "prime time" is and do your most important or difficult tasks. Set "business hours," specific times when you are at work and times when you turn on the answering machine because you are "on duty but off call." You, your customers, and your family will appreciate knowing your set routine, even though you know that for special events or emergencies you can break that schedule.

2) Notice what your four or five big time-wasters are and learn techniques to eliminate them or compensate for them. Some common ones are: telephone interruptions, visitors, socializing, excessive paperwork, lack of policies and procedures, procrastination, failure to delegate, unclear objectives, poor scheduling, lack of self-discipline, and lack of skill in a needed area.

3) Stay in contact with people. Even though you prefer to work at home, you should plan work-related or social activities that provide frequent contact with others. This will help your morale if you feel isolated. Even for home-based business owners who like feeling isolated, keeping up with business and professional contacts is a must.



4) Build a fitness program into your day. Many successful entrepreneurs exercise in order to think creatively because physical activity sends oxygen to the brain and helps the mind function better. With regular exercise your health will improve, your stress level will go down, and your trim look will inspire people to have confidence in your abilities.

5) Give your home business as much of a separate and distinct physical identity as possible. Although you might save a few dollars by using the ironing board as a bookshelf and a cardboard box as a file cabinet, the stress and strain of operating without proper space and supplies will take its toll. Have a separate room or area for your business, with a separate entrance if customers or suppliers visit. Consider soundproofing so your family won't be bothered by your noise and vice versa. (In addition to the psychological and physical comfort of having a separate office, the IRS requires it in order for you to make a legitimate claim for tax deductions.)

6) Take care of your major business asset: YOU. Being the boss can be exciting, fulfilling, and rewarding. It can also be lonely, stressful, and demanding. Learn to balance your professional and personal life. Go on vacation. Get a weekly massage. Join a health club. Take a class in meditation. Attend a business owner's breakfast club. Your business depends on you to be at your best.

#### Profile: Jeanette's Day-Care Center

Jeanette wanted to return to work when her two children started school. Since her degree was in child psychology, she applied for a job as an assistant at a neighborhood day-care center. When she heard the salary, she decided there must be a better way. After several months of planning and researching, she decided to open her own day-care center in her basement recreation room. With remodeling she could accommodate the children and meet the zoning and licensing regulations. Four years later, her center has an excellent reputation and a long waiting list. She likes being "at home" and working in the business half-days while attending school for a graduate degree in business administration.

#### Profile: Wallflowers, A Wallpapering Partnership

Thirteen years ago Jane and Rachel bought a van together and formed "Wallflowers," a wallpapering and painting business. When they started, Rachel was recently divorced and wanted to test her entrepreneurial wings. She had quite a reputation with her friends for doing beautiful wallpapering and was often asked by them to help out on weekend remodeling jobs. Jane had little wall-papering experience but had handled all the accounting for her uncle's contracting firm and knew local suppliers and business owners.

They have never had to advertise. Word-of-mouth referrals have kept them

busy ten months of the year. They close for two months in the summer so Jane can be with her kids and Rachel can go to Maine. Jane likes working "around" her family; if a child is sick or has a school program she'd like to attend, she doesn't have to apply for leave or fear losing her job. Her clients, mostly family-oriented people such as herself, understand that her children come first and the job will get done.

#### For Further Information

#### U.S. Small Business Administration Publications

The following Business Development Booklets, are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. Write for current prices on order form SBA 115B.

Handbook of Small Business Finance--Small Business Management Series No. 15.

Ratio Analysis for Small Business--Small Business Management Series No. 20.

Guides for Profit Planning--Small Business Management Series No. 25.

Starting and Managing a Small Business of Your Own--Starting and Managing Series No. 1.

The following Business Development Pamphlets are available for a small processing fee. Write the Small Business Administration, P.O. Box 15434, Fort Worth, TX 76119 for order form 115A, which lists the publications and fees.

#### Management Aids

The ABC's of Borrowing--MA 1.001

What Is the Best Selling Price?--MA 1.002

Keep Pointed Toward Profit--MA 1.003.

Basic Budgets for Profit Planning--MA 1.004.

Accounting Services for Small Service Firms--MA 1.010.

Analyze Your Records to Reduce Costs--MA 1.011.

Getting the Facts for Income Tax Reporting--MA 1.014.

Budgeting in a Small Business Firm--MA 1.015.

Sound Cash Management and Borrowing--MA 1.016.

Keeping Records in Small Business--MA 1.017.

Checklist for Profit Watching--MA 1.018.

Simple Breakeven Analysis for Small Stores--MA 1.019.

Profit Pricing and Costing for Services--MA 1.020.

Problems in Managing a Family-Owned Business--MA 2.004.

Business Life Insurance--MA 2.009.

Planning and Goal Setting for Small Business--MA 2.010.

Checklist for Going Into Business--MA 2.016

Thinking About Going Into Business--MA 2.025.

How to Get Started With a Small Business Computer--MA 2.027

Techniques for Problem Solving--MA 3.010.

Learning About Your Market--MA 4.019.

Incorporating a Small Business--MA 6.003

Selecting the Legal Structure for Your Business--MA 6.004

Women's Handbook--MA 5.

Small Business Bibliographies

Home Businesses--SBB 2.

Selling By Mail Order--SBB 3.

Marketing Research Procedures--SBB 9.

National Directories for Use in Marketing--SBB 13.

Recordkeeping Systems--Small Store and Service Trade--SBB 15.

Basic Business Reference Sources--SBB 18.

Financial Management--SBB 87.

Marketing for Small Business--SBB 89.

Ideas Into Dollars (Inventors' Guide)--SBB 91.

Decision Making in Small Business--SBB 94.

Other Publications

Be Your Own Boss: The Complete, Indispensable, Hands-on-Guide to Starting  
and Running Your Own Business. Shilling, Dana. Penguin Books.

Cater From Your Kitchen. Blanchard, Marjorie P. 1981. Bobbs-Merrill.

Consulting: The Complete Guide to a Profitable Career. Kelley, Robert E.  
1981. Scriber's.

Earn Money At Home. Davidson, Peter. 1981. McGraw-Hill.

Entrepreneurial Mothers. Gillis, Phyllis. 1984. Rawson Associates.

Homebased Businesses. Feldman, Beverly N. (editor). 1982. Till Press.

Home, Inc. Feldstein, Stuart. 1981. Grosset and Dunlap.

Homemade Money: The Definitive Guide to Success in a Home Business. Brabec, Barbara. 1983. Artisan Crafts.

Home Work: The Stay-at-Home Money Book. Judge, Vira H. 1977. Deseret Books.

How To Start A Business in Your Home and Grow. Willt, Bud. 1980. But Witt.

How To Start and Run a Successful Home Typing Business. Glenn, Peggy. 1980. Ames-Allen.

How To Start a Profitable Typing Service at Home. Montaperto, Nicki. 1981. Barnes & Noble.

Insider's Guide to Small Business Resources. Gumpert, David E. 1982. Doubleday.

Invest In Yourself: A Woman's Guide to Starting Her Own Business. Moran, Peg. Doubleday.

Mind Your Own Business At Home. Bimonthly newsletter. P.O. Box 14850, Chicago, IL 60614.

National Home Business Report. Bimonthly newsletter. Brabec, Barbara. Artisan Crafts.

New Venture Creation, A Guide to Small Business Development. Timmons, Jeffry, et. al. 1977. Richard D. Irwin

The #1 Home Business Book. Delany, George and Delany, Sandra. 1981. Liberty Publishing.

The Small Business Handbook: A Comprehensive Guide In Starting and Running Your Own Business. Burstiner, Irving. 1979. Prentice-Hall.

Turn Your Kitchen into a Goldmine. Howard, Alice. 1981. Harper & Row.

Women And The Business Game Strategies for Successful Ownership. Taylor, Charlotte. 1980. Simon and Schuster.

Women Working at Home: The Homebased Business Guide and Directory, Behr, Marion. 1981. WWH Press.

## FIXING FINANCIAL AFFLICTION

Failing finances are a common problem now-a-days. How does one extricate himself from a heavy debt load? There are ads that offer to do that ... for a price. It may be the answer for some. However, there are things one can do for himself.

The first step to relieve debt is not to make any more. There are very creative ways to save money. Ben Franklin said, "A penny saved is a penny earned." Bill Gothard said several years ago, "A dollar saved is a dollar sixty earned!" In other words, taking into account the multitude of revealed and hidden taxes, working expenses, etc., one then needed to earn \$1.60 in order to have \$1.00 to spend! How much do we have left today?! One of the best and most practical resources for saving money is Dr. Alfred W. Munzert's book *Poor Richard's Economic Survival Manual* (Franklinville, NY: Hemisphere Publications, 1982). Dr. Munzert raised a large family on a teacher's salary and his children received a college education. I am still amazed by many of the strategies he used. Buy the book, or request it at your library.

Making arrangements for a reduced payment to each creditor is one alternative to get rid of debt. If you need help, call the National Foundation for Consumer Credit at 1-800-388-2227.

Bankruptcy is another alternative. In their anguish, some have chosen to use this law that provides protection from creditors. You can file for bankruptcy yourself, but it is probably best to hire a competent bankruptcy lawyer. I went through a chapter 7 bankruptcy and did the filing myself, since I could not afford a lawyer at the time. The best resource that I found was Kenneth J. Doran's book, *Personal Bankruptcy and Debt Adjustment* (New York: Random House, 1991). It is written in plain English, with legal terms explained. Be sure to use up-to-date-forms (I had to re-submit some forms because of this). The new forms were expensive, so I copied them from Clark, Boardman and Callaghan, *Bankruptcy Code, Rules and Official Forms* (New York: The Lawyers Cooperative Publishing Company, 1991). A friend paid my filing fee. I made it with God's help and you can, too! Avoid bankruptcy if possible by solving financial problems early on. Financial stress will make you sick--I know from firsthand experience.

For a copy of my new book, essays exposing the myths of political correctness, send me two dollars. Read it. Then, if you want to keep it for reference, send an additional three dollars. You will not see much of this documented material in the media. This is IBM shareware written in ASCII and on 5 1/4 inch computer disk. Please refer to the name of this publication. Your comments are welcome.

Best wishes in your mailorder endeavor!

Russell Communications  
P O Box 27<>F Highway at Third  
Garden City, MO 64747-0027

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#### HOW TO BREAK INTO FREELANCE WRITING

A noble vocation, "freelance" writing takes its name from the days (rather, "knights") of yore! Those not in the service of a monarch sometimes hired out their services. Some were said to carry business cards inscribed: "have Lance - Will Travel."

Seriously, for those who feel the calling freelance writing can be both enjoyable and rewarding - to say nothing of what it can do for "ye old ego."

Freelance writing encompasses an endless variety of both subjects and approaches to writing: stories for local newspapers, magazines, children's publications, technical journals, romance novels, resume's advertising copy - even crossword puzzles (now they have computer programs for these).

Everyone is qualified to write something! About the only absolute prerequisite is the ability to explain yourself.

The brightest technician who cannot adequately explain his techniques or the potential of his experimentation is of questionable value to the profession, his employer or even society.

Of course, to break into the higher income potential, experience, talent and a good knowledge of the language are essential.

From there, style, consumer demand, marketing, education and plain, old fashioned luck are factors that usually, but certainly not always govern how far one can go. Even so,, there is still, plenty of room for all types and levels of writing -- because there are all levels and interests of readers.

Writing even short articles or instructions requires, as the saying goes, one percent inspiration; 99 percent perspiration. Work on your item every single day -- preferably for regular hours. Research, rephrase and rewrite until you are satisfied.

Do not ask the opinions of others -- especially during the writing stage. You don't need to know how 15 other people would put it -- you simply want to YOUR ideas from YOUR perspective on paper in the best way you can.

Other opinions can be needless distractions and disheartening; they can prevent you from following through on your idea and becoming entwined with someone else's. If you want advice, get it before starting your project --or after it is finished.

A few of the more obvious outlets for freelance writers are

magazines, newsletters, advertisers, newspapers, children's publications, and trade journal.

Getting into this field may be more difficult than asking your home town newspaper if they will accept (and possibly pay for) a short article you have written - and hopefully, to write others on assigned or your choice topics.

When trying this technique, look around for subjects that would be of interest to the readership of the publication in question. This approach may not be the most rewarding financially, but it can get you started and help build your confidence and reputation.

If you have an area of expertise that you would like to concentrate on, write to publishers of applicable trade journals and magazines in the field.

Ask them for information on items they buy from freelance writers. Always include a self-addressed stamped envelope (SASE) to expedite a reply. Most will tell what they pay, how long the like their articles and some will include a writer's guide that spells out their terms and exactly what they like.

For an up-to-date, annual listing of publishers, look for the WRITER'S MARKET in your public library.

Probably the most useful tool for a freelance (or any other, for that matter) writer is a word processor. If you don't have one, GET ONE and learn to use it. Get a standard word processing program, output can be input to publisher programs!

Without a word processor, you will have to work at least twice as long and hard.. Make sure your computer is IBM compatible (it can be most any off-brand or clone, so long as it is 100% IBM compatible.

You can probably get a complete used setup for \$500 or so that will do nicely. An IBM XT (8026) compatible is about the smallest (and oldest) equipment that will allow you to use a good, universally accepted word processing program like Word Star or Word Perfect.

Many publishers will accept manuscripts on disk, so long as they are in a "standard" program and system. The publishers can then "import" your data copy directly into typeset or desktop publishing with his specialized computer program!

If you area poor typist, get a touch typing program -- some of them are really fantastic: you can learn or improve your typing while playing a game!

Most people can get 30 words per minute in a week; more with extra time and effort. When using a typewriter or trying to write in longhand,, the pages get messy and often out of order as they are edited and re-edited, and have to be done over frequently.

Unfortunately, when you do one page over, the page lengths never come out right, so the whole thing has to be retyped. A word processor takes care of all that, plus spelling, looking up words in the Thesaurus, margins, page numbering, uniform formatting,

etc., as a matter of routine.

As soon as you decide to get a computer and word processor, join a local IBM compatible USERS CLUB. The members will be happy to advise you. You will be able to ask all the questions you want to get unbiased answers and assistance.

Although it would be nice to have an expensive, up-to-date model with a fancy color monitor (video display) and a jet laser printer, there are plenty of used PC's on the market starting around \$500 that would do fine for your efforts.

Look under Computers and Software in the classified want-ads for 100% IBM compatible models. Also, check on close-outs and "clones" (computer magazines usually have many advertisements for these).

As a minimum you will need an IBM compatible computer (minimum 512 is needed for a standard word processing program), a disk drive (360K) and a printer. A 9-pin dot matrix will do, but of course a 24 pin is much better (and more expensive). A daisy wheel printer will produce letter quality print but will not handle graphics (logos, illustrations or fancy print) and is not recommended.

The top of the line is the jet laser, which can cost several thousand dollars with the associated equipment and programs. A hard disk (20 to 40 MB would be very good -- and is required for the newer word processing programs), or at least a second disk drive.

Although the 3 1/2" disks are becoming popular, they are not yet totally standard, so better get a 5 1/4 floppy drive (preferably with 1.2 megabyte drive -- only about \$20 more on a new computer). If you can afford it, get a 640K memory computer -- this will let you process more information at a time. All of these suggestions can be fully explained at the by members of a users club.

While the final copy of your manuscript should be either typed or letter quality print (usually 24 pin dot matrix, daisy wheel or jet laser) for the best possible impression, many editors will now accept a clearly printed, double spaced 9 pin dot matrix, or a disk version in Word Start or Word Perfect program.

If you have a 9 pin dot matrix printer, be sure and ask the editor if they will accept it first. Otherwise, have a friend with a better printer run the manuscript off for you!

The WRITERS DIGEST is THE trade magazine for journalistic writers, the AMERICAN BOOKDEALERS EXCHANGE serves more self-publishers and perhaps those interested in the mail order market.

Several books on writing are offered by various discount book suppliers (see Business Sources). One (BOOKDEALER) has one called "Writing for Non-Professionals" (#70867) that sells for \$2.95. The WRITERS HANDBOOK (THE WRITER, Inc.) Lists over 2,000 buyers of written material - complete with publisher names, addresses, editors, size and type of material desired, plus other valuable information of interest to freelance writer.



A potential problem area for creative writers is how to protect your material. The old tale about mailing it to yourself is a good story, but not adequate! Some experts suggest that one good reason for copyrighting is to keep from being sued for publishing your own material!

At any rate, copyright protection is uncomplicated, cheap and technically automatic for material created after March 1st, 1989. It is strongly recommended, however, that you at least display the fact that it is copyright protected, so any infringements will not be "innocent." Just include the word Copyright (or Copr.) or a little c in a circle the first year of publication, and the name of the copyright owner.

There is no fee for this protection (which lasts for the lifetime plus 50 years) for works created after Jan. 1st, 1978).

The only "catch" is that while you can prosecute a pirate, you cannot sue for damages unless the copyright is registered with the copyright office.

Therefore, to obtain true copyright protection, it is necessary to register your material. This can be done either before or after it has been published. If it is unpublished at the moment you sign the copyright application send in the application and one copy of your manuscript.

If it has already been published, send two copies. In both cases, the registration fee is \$10.

For more information, see Copyrights in the next section. If it has already been published, send in two copies. This \$10 not only protects your material here in the U.S.A.: it also extends to about 80 countries who are signatories to the March 1, 1989 Berne Convention treaty. Not bad for a \$10 investment.

#### BUSINESS SOURCES

REGISTER OF COPYRIGHTS, Copyright Office, Library of Congress, Washington, DC 20559. To register an UNPUBLISHED manuscript, send one copy of it, a check or money order for \$10 and a completed application Form TX, all in the same envelope or package.

For additional information, write Copyright Office, Information Section LM-401, Library of Congress, Washington, DC 20559, or call their hotline: 202/479-0700.

COPYRIGHT OFFICE, Publications Section, LM-455, Library of Congress, Washington, DC 20559. This is where you write to get the forms to apply for copyright - or call their hotline: 202/298-9100.

THE WRITERS DIGEST, 205 W Center St., Marion, OH 43305. Trade magazine for writers.

THE WRITER, INC., Box 892, Boston, MA 02117. Publishes THE WRITERS HANDBOOK.

AMERICAN BOOKDEALERS EXCHANGE, Box 2325, La Mesa, CA 92401. Offers publication support for writers.

AMERICAN AMATEUR PRESS ASSOCIATION, 5009 Dickens Ave., Tampa, FL 33629. Publishes AMERICAN AMATEUR JOURNALIST for aspiring writers.

F W PUBLISHING CO., 9933 Alliance Rd., Cincinnati, OH 45242. Publishes WRITERS MARKET, an annual listing of 4,000 buyers of the written word.. Available at most libraries.

PUBLISHERS CENTRAL BUREAU, Box 1187, Newark, NY 07102. Discount books (reference, novels, history, etc.)

PERSONAL PUBLISHING, Box 390, Itasca, IL 60143. Trade magazine for desktop publishers - oriented to McIntosh users.

ALDUS CORPORATION, 411 First Ave., S-200, Seattle, WA 98104. Sells Pagemaker programs for McIntosh System. \*\$495).

DOVER PUBLICATIONS, 31 East 2nd St., Mineola, NY 11501. Discount books, clip art, stencils, etc.

QUILL CORPORATION, 100 Schelter Rd., Lincolnshire, IL 60917-4700, 312/634-4800. Office and computer supplies.

NEBS, 500 Main St., Groton, MA 04171, 800/225-6380. Office and computer supplies.

SWEDCO, Box 29, Mooresville, NC 28115. 3 line rubber stamps - \$3; business cards - \$13 per thousand.

ZPS, Box 581, Libertyville, IL 60048-2556. Business cards and letterhead stationery. Will print your copy ready logo or design, even whole card.

WALTER DRAKE, 4119 Drake Bldg., Colorado Springs, CO 80940. Short run business cards, stationery, etc. Good quality but no choice of ink or color.

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#### HOW TO USE CUSTOMER RESPONSE CARD

We all do it. If we get good service or order a product we like \_ we order from the company again. However, if there is something we don't like or are dissatisfied with the service in any way, shape or form, we never bring it to the attention of the company. We simply don't use their services again and think that solves the problem.

Let me share with you something that happened here locally to me. A new pizza shop moved into the neighborhood and I decided to try them out. When

I placed my order I informed them that they had been highly recommended

and  
this was my first order. When I picked up the pizza and brought it home  
it  
was HORRIBLE! I couldn't believe I actually paid \$14 for the thing. It  
wasn't  
even worth \$2 in my opinion.

Naturally, I had made up my mind never to order from this particular  
pizza  
shop again \_ but a few days later the owner called me to ask my opinion  
on  
what I thought of the pizza. (He had got my phone number off the check I  
paid  
my order with.)

Feeling a little embarrassed and reluctant to tell him how horrible it  
was,  
I said, "It was okay but not something I would order again." The owner  
became  
very interested and asked me to give him more specifics. I explained  
that the  
sauce was too tangy and there was not enough cheese or pepperoni on the  
pizza  
\_ even though I ordered double of both items. He asked me to give his  
pizza  
one more try, but this time it would be free of charge. I accepted.

And guess what? The quality was greatly improved and I am now a steady  
customer. You can use the same situation for your mail order business.  
Only you can't afford to call everyone that orders from you. That is  
where  
the "Customer Response Card" is vital to your growing business. You  
hardly  
ever see them in mail order because people don't think they really work.  
That's because they have never put them to use. That's where you can be  
different and innovative \_ and profitable \_ all at the same time.

"Customer Response Cards" can easily be typeset by any competent  
typesetter. They should ask such questions of the customer, as:  
How do you rate our service? Was the quality of our product or  
service excellent, good, fair or poor? What would you suggest  
for  
us to do in order to improve our services? Would you order from  
us  
again? Any additional comments?

Lines should be left for the customers' name, address and telephone  
number.  
In addition, the "Customer Response Card" should be pre-addressed with  
your  
address and preferably pre-stamped for their convenience.

If you decide to use "Customer Response Cards" they will serve a very  
important function in your daily business. First of all, when customers  
receive them they will know you are concerned about them and their  
order.  
They will feel important that you have asked for their opinion and will  
feel  
free to make helpful suggestions, complain or brag about your company.

However, you must keep in mind that a complaint is NOT a reflection on you personally. A complaint should be an indication that there is some unfinished business to take care of. Almost 90% of the time, if you listen and try to understand a customer complaint \_ the customer is more than satisfied.

Then, if you offer to make up for the difference or offer them free services or a money-saving coupon on their next order, they will be much more than satisfied. Not only have you kept a customer but built a trust with them at the same time.

Solve complaints from "Customer Response Cards" as quickly as possible. Customers may make a complaint on a postcard more readily than calling you or writing you a letter. This helps draw your attention to problems before they get out of hand \_ problems you might not even know existed!

And never forget to thank your customers for providing you with their opinion. You could send them back a discount coupon to use on items you sell on their next order or simply send them a "Thank You" card. Remember that a customer's opinion is worth its weight in gold. There are professional marketing firms that are paid \$1,000's of dollars per year by companies to find out what people really think of their products. A "Customer Response Card" is a very low-cost way of determining trends and interests that your customer market has. If you keep on top of things, you will never have to hire these high-paid professionals. You'll know more than they do!

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#### SELECTING THE RIGHT BUSINESS NAME

Ask 500 people already in business how they decided upon their business name and you will get 500 different answers. Everyone has a story behind how they chose their own business name. Even if the business is named after their own birth name, there's a reason why this was done.

When you open a business, in a sense, you are causing a new birth to begin. This new birth was created from an idea alone by you or your associates. It will have its own bank account, it's own federal identification number, it's own credit accounts, it's own income and it's own bills. On paper, it is another individual! Just as if you were choosing a name for your own unborn child, you need to spend considerable time in deciding upon your business name.

There are several reasons why a good business name is vitally important

to

your business. The first obvious reason is because it is the initial identification to your customers. No one would want to do business with someone if they didn't have a company name yet. This makes you look like an amateur who is very unreliable. Even if you call your company

"Kevin's

Lawn Service," a company name has been established and you are indeed a company. People will therefore feel more comfortable dealing with you.

Secondly, a business name normally is an indication as to the product or service you offer. "Mary's Typing Service," "Karate Club for Men," "Jim-Dandy Jack-of-all-Trades," "Laurie and Steve's Laundry," "Misty's Gift Boutique," and "Star 1 Publishers" are all examples of simple business names that immediately tell the customer what product you offer.

However, most people will choose the simple approach when naming their business. They use their name, their spouse's name, their children's names

or a combination of these names when naming a business. The national hamburger-restaurant chain "Wendy's" was named after the owner's daughter.

However, research has proven that these "cutesy" names are not the best names to use for a business. Many experts claim that it makes the business

look too "mom-and-pop-sie." However, this depends on the business. If you

are selling something that demands this mood or theme to appeal to your market, it's best to use this approach.

Personally, I am inclined to name my businesses with catchy names that stick in people's heads after we have initially made contact. Names like,

"Sensible Solutions," "Direct Defenders," "Moonlighters Ink," "Printer's Friend," "Strictly Class," "Collections and Treasures," and "Starlight on

Twilight" are all good examples of catchy names. These types of names relate to your product or service but serve as a type of slogan for your business. This is a big help when marketing.

A friend I know owns a business called "Mint and Pepper." He grows and sells his own line of raw seasonings to people in the local area. At a get-together for small businesses, he passed out his business card. The card had a peppermint candy glued on the back and the slogan read: "Your business is worth a mint to us." This marketing concept not only got my friend noticed and remembered, but brought in several large orders for the business.

When you name a child, you may not decide upon a definite name until after they are born. You do this because a name is sometimes associated with a type of personality. When you name a business you may need to wait

until you have a product or service to sell and then decide upon a business name before going into the business itself because your business

name should give some clue as to what product or service you are selling.

A business named "Joe's Collections" normally wouldn't sell car parts and a

business named "Charlie Horse" would not sell knitting supplies.

To generate ideas - begin looking at business signs everywhere you go. Notice which ones catch your eye and stick in your mind. Try and figure out "why" they stuck in your mind. Naturally, the business "Dominos Pizza" sticks in your mind because it is nationally known. These don't count! Look around and notice the smaller businesses. Take your time. Within a few days you should be able to come up with a few potential business names.

Then, when you finally find a few names you really like - try reciting them to other people and get their opinion. It won't be long until your business will have the proper name that will carry it through it's life!

#### MAIL ORDER HINT:

Try to avoid very long names so they will fit into small display ads. Amalgamated International Enterprises can be easily presented as AIE - which is easier and shorter to spell.

79.

#### HOW TO WRITE A PRESS RELEASE

The word "Press Release" seems to scare most people to death. On top of that not many people take the time to even think of writing their own Press Release. We hope this brief article will help clear up some of the mystery's surrounding this simple form of marketing.

The first thing you have to remember is that a Press Release is a "news" item. It needs to "inform" people, NOT sell them something. For example, you are reading this report because you want to learn something that will BENEFIT YOU. You aren't reading it just so you can buy something else. If money is the deriving force in your business \_ you won't go too far. Your main goals should be in pleasing customers, providing them with a high-quality product and more than their money's worth. The trick is to do all this while still making money. People don't care what mountains you had to climb, what seas you had to cross or what tribe of people you had to learn the ways of just to find a secret formula. Instead \_ they want to know WHAT the secret formula is.

The sales circulars you print and mail sell your product. A Press Release informs others about your product. Instead of your main objective being to sell the product and have the customer send in an order immediately, a Press Release informs the customer exactly how your product will benefit their lives. This must be conveyed in the form of a "newsworthy" Press Release.

If you have a sales circular to sell a product, you can easily turn it into a Press Release without much difficulty. It's just a new marketing angle of presenting your product to the public.

The following is an example of a typical Press Release for our publishing services: So many people are entering the mail order market these days, but so many of them are getting ripped-off by a bunch of hype. People are promised untold riches in a short period of time. The hype ads play with their emotions by making them believe it's so easy to make money through the mail. It's sad.

However, a new book has just been released to help solve these problems for the average person. For the first time in history \_ a REAL directory has been compiled listing the ACTUAL name and addresses of 179 honest and trustworthy mail order folks. People can write DIRECTLY to these people and receive FREE information to get them started in their own business now!

It's unbelievable. Without trying to sell you anything else, you can get this book for only \$4.95 \_ a price anyone can afford. Meet the real mail order dealers who care about their products and wants to help you get started doing what they are doing.

Only available from Graphico Publishing, PO Box 488, Bluff City TN 37618. As you can see, this is a short but sweet Press Release \_ however, you should be able to see the "newsworthiness" in it. It's main focus is on the fact that most people get ripped-off when they start their first mail order business. The solution to this problem is a new directory that is available for the first time in history. The sell is slowly led into because the reader will naturally want to get their hands on this one. It doesn't ask for money it only tells the reader how to get a copy if they want one.

Here's a great test for a real press release. Since your final sales pitch is included in the last paragraph \_ read the Press Release aloud. Would it still be worth reading WITHOUT your sales pitch? If so, it's probably a Press Release.

Press Releases come in many forms due to the product you are writing about. However, the basic rule of thumb still applies. If you've never wrote one before \_ it may be a little difficult. Don't despair. Grab the latest

daily  
newspaper and read some of their informational articles. Notice how each article is written and pattern yours after the same format. After you do a few of them \_ you'll be able to "get the picture."

When your Press Release is written to your satisfaction, the proper way to submit it to a publisher is: Be sure and type it on a typewriter or computer. Standard format is double-spaced and not longer than two 8 1/2x11 pages. Be sure and put your name, address and page number at the top of each page.

Write the note: "For Immediate Release." at the top. If you are only sending the press release to one publication \_ tell them it's a "first run."

80.

#### MARKETING YOUR OWN PRODUCTS AND IDEAS

One of the main problems within the "inner circle" of the mail order business is that everyone is selling everyone else's products. Pages crammed full with commission dealerships is turning a good thing out of hand.

It's been said over and over again, but newcomers to the industry should realize that they need to develop their own products and services. Commission dealerships are fine to compliment your business if the product is relative to your main product, but everyone should strive for developing their OWN product too. No one will ever get rich dealing in just commission dealer-ships. And people who think this way will give up over a period of time because they go broke. Let's stop this madness and spread the word about becoming a Prime Source.

How do you develop your own specialized product or service? It may take a few months to get your "feet wet" in mail order to determine your particular "nitch." However, you should already know the talents you possess inside yourself and what your own capabilities are. There has to be more to your business than making money!

What are your hobbies and interests? What would you like to do more than anything else and would you do it if you were not getting paid? For instance, I personally enjoy publishing newsletters. I get a surge of electricity when I am working on them and wish my body would last 24-hours a day so I could work on them all the time. This is loving what you do.

On the other hand, this may sound really crazy to you. Perhaps you would rather write, edit, paste-up or seal envelopes. I remember Dorothy Christian



(Shells 345) once explaining to me the "high" she used to get when doing a mass mailing. She loved peeling off labels, sticking them on envelopes and folding the materials to insert. She said that every envelope she stuffed, she felt it would generate a big customer order. This is enthusiasm!

Therefore, Dorothy could have developed a specialized or confidential mailing service. Unlike a big mail where she would be mailing circulars in envelopes, but a targeted-mailing for different programs and products. (Example: A circular selling books and reports would be marketed only to book buyers from lists Dorothy would purchase and use for these types of mailings. She also would be careful not to put any conflicting information in this special mailing she was preparing for specific customers.)

You can take anything you sell and creatively turn it into your own prime source product. A good friend of mine, Helen VanAllen loved to prepare big mails so she created the "Design-Your-Own-Big-Mail-Package." Customers were presented with a list of the circulars Helen had on hand and they checked off the ones that interested them. This is one example of how an old concept can be turned into something new with a twist that makes it YOUR OWN product.

There are several ideas that other mail order folks used to create their own product. You can use the same concept locally also. If you sell vitamins, for instance, you could sell them in individual packets and label them for each day of the week. Use the vitamins from the company you are working with but the individual packets and labels would be your own product. You can also charge more for this personal touch.

You are unique! You are an individual who has special talents and interests. Your business should be a reflection of YOU and your own contribution to mail order. Mail order is a wonderful business, filled with some of the best people in the world. But it's up to every one of us to keep it that way.

#### 34. HOW TO BE AUDIT-PROOF

If you're in business, you have around a 1 in 100 chance of being audited by the IRS. If you run a business from home, your chances go up about four times. As long as you keep your books in good order, though, an audit is nothing to be scared of. The IRS won't audit you just to harass you. They

just want justification of certain items on your tax return. There are two important things to do if you get audited, though, that can protect you and your business from undue problems.

When the IRS notifies you that you will be audited, they will give you the choice of having the audit meeting at the IRS office, or your office. ALWAYS HAVE THE AUDIT TAKE PLACE AT THE IRS OFFICE! Many business people think that they should have the audit in their own office, so they feel more comfortable. This is the WRONG thing to do. If you let the IRS agent into your office, you have given him or her the opportunity to view your whole operation. They will definitely be looking for other things to question you about, besides the original audit item. If you have the meeting at the IRS office, it forces the agent to focus on the original item.

The second thing you should do goes along with the first. When you go to the IRS office, THE ONLY PAPERS YOU SHOULD TAKE WITH YOU ARE ONES DIRECTLY CONNECTED TO THE POINT OF CONTENTION!

If the IRS has a problem with a certain deduction, say travel expenses, take the receipts that will back up the deduction, AND NO MORE!

If you take your complete set of business records, the agent is sure to take some time "looking for backup information" for your deduction. In reality, they will be looking for other, unrelated items that don't "look right." If you have the meeting in your office, they have every right to look through your files for the same things.

In other words, the smart thing to do is only give the IRS access to information regarding the items they are auditing you for. They will let you know the reason for the audit beforehand. This gives you the knowledge you need to protect yourself and your business from audit nightmares.

FREE ADVERTISING AND FREE POSTAGE

By Dr. John E. Russell

Here is one approach you may not have recognized. There is a common thread that runs through the following books:

Hicks, Tyler G. Mail Order Success Secrets.  
Kameroff, Bernard. Small-Time Operator.  
Wright, John. The Royal Road to Riches.

They all use their books as a means to sell you more of their products. What it amounts to is (1) a profit plus (2) free advertising plus (3) free postage for them. Hicks incorporates his "sales letter" throughout his book. Kameroff places his ads at the end of his book. Wright includes a thirteen page sales letter in his book. Therefore, when you buy their books, you pay their postage and their advertising expenses. Study their books. If you can't afford to buy them, request them at the library.

While we are on the subject of books, be sure to read what I believe to be the best book on mail order: Julian Simon, How to Start and Operate a Mail Order Business. (The 4th Edition hardback is more up-to-date). Another excellent book is William Cohen, Building a Mailorder Business. Both are required study for the serious mailorderphile.

If you can't afford to publish a book, try publishing a booklet and including your ads. A small booklet may consist of four 8 1/2 X 11 inch sheets folded in half and stapled, yielding a 16 page booklet. Each can be printed for about the cost of first class postage when printed in lots of a thousand.

Start an adsheet. You can purchase space in a tabloid and have your adsheet published. Your advertisers will pay for the space, leaving you with profit, free ads and postage for you, and with relatively little work on your part!

Start a tabloid, magazine or magalogue. Advertisers will pay for your ads and postage.

Look for new publications that give free ads as a promotion, then send in your ad. Request a LSASE in your ad--it will pay your postage and save you time addressing envelopes.

Mail your ads when you mail your products. Your customer has already paid the postage by purchasing the product.

Start a print and mail business. Copy the pros. Mail bulk rate. Your customers will pay for your postage and printing. Simply mail your ads with theirs. Sell the names of your customers to mailing list companies.

Start your own in-house advertising agency. You immediately save up to 17% of advertising costs. As an ad broker, profits can pay for your advertising!

For a copy of my new book, essays exposing the myths of political correctness, send me two dollars. Read it. Then, if you want to keep it for reference, send an additional three dollars. You will not see much of this documented material in the media. This is IBM shareware written in ASCII and on 5 1/4 inch computer disk. Please refer to the name of this publication. Your comments are welcome.

Best wishes in your mailorder endeavor.  
Russell Communications  
P O Box 27--F Highway at Third  
Garden City, MO 64747-0027 \_

## 18 METHODS FOR OBTAINING FREE ADVERTISING!

"Tricks of the Trade" We've Used to Get a Lot of Free Ads

Published 1991 by Mascor Publishing, Silver Spring, Maryland

1. Advertising Specials: If a magazine offers a "two for one" deal, or a "pay for 3 and get a fourth ad free", take advantage of it; it's Free Advertising!
2. Free Listings: Some publications offer to list your name and address Free, if you have something that you offer "free for the asking" to their readers. This can be a "free sample", a free list of customers; or whatever. Tell publishers what you have to offer!
3. Print a Booklet Offering Tips: List tips or what-have-you, and on the inside pages, or in the back, place some of your own Free ads!!
4. The Piggy-Back Method: Every time you get ready to mail a letter or fill an order, place other ads in the envelope; it costs you no more and it's like getting a free ad!!
5. Free "Give-Aways": These can be pens, rulers; key chains, etc., each with YOUR ad message and address on each one. Give them away and your Free Ad rides along!
6. Your Own Advertiser/Newsletter: Issue it regularly; sell ad space in it and subscriptions to it. They pay for the printing and postage, and YOUR ads in it, too, at no cost to you!
7. Trade Products/Services for Ad Space: If you have something which a publisher needs, trade what they want, for ad space!
8. Provide Commission Ads to Dealers: Your dealers place YOUR ads over THEIR name! Free Ads for your products!
9. Columns; Releases, etc.: Publishers will often print these free, if it's NEWS, or interesting to their readers! Send notices out to editors and get free ads in exchange!
10. Share Costs With Others: Get together with other dealers and mailers. Split costs and quantities with others. Your ads go FREE to HIS customers, and HIS go free to yours!
11. Offer Your Commission Ads to Publishers: They insert them as "mailer/distributor" commission ads! They cost you nothing and can get you lots of orders!
12. Your Product as a BONUS Item on Another's Flyer: This can increase the other person's orders, and YOUR product gets advertised on HIS fliers, etc!
13. Place PIM-50 Phrases in your Ads: This says to Publisher: "Insert my ad in your publication and I'll help distribute 50" (or more) copies for you. It's another kind of "trade deal" with publishers.
14. Give a Talk or Seminar: Contact local clubs, and organizations. They always seek outside speakers. After you talk about your

business or your product, hand out flyers, etc. It's like getting free advertising!

15. Ads on Bulletin Boards: Put up flyers on grocery, laundry bulletin boards.

16. Make a Rubber Stamp of your Ad: Stamp it everywhere you can. Stamp it on envelopes; flyers; etc.

17. Be Listed as a Source in Back of Books: Often writers will want to list references and sources in their books. Get the work out to authors! Look for ads offering Free Ads!!

18. Discount to "a Friend": Tell your customers you will give discounts to anyone they send your way! It's Word of Mouth advertising; the best you can get and it's free!

Free advertising is any message that goes out to prospective buyers without cost to you! There are lots of ways to get others to spread the word about what you offer! Try these methods; and you'll get lot of free ads; which mean more responses and more orders!

Written by: CHRISTENSEN'S,  
1412 Mt. Shasta Dr.  
San Jose, CA 95127

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#### 100 WORDS THAT HAVE SALES APPEAL

Add sale punch to describe your merchandise or sales offer - use one of the following words. It may be helpful, used alone, or with other words. They have been selected from successful ads for your convenience in preparing copy.

Absolutely.. Amazing.. Approved.. Attractive.. Authentic..  
Bargain...Beautiful.. Better.. Big.. Colorful.. Colossal..  
Complete.. Confidential.. Crammed.. Delivered.. Direct..  
Discount.. Easily.. Endorsed.. Enormous.. Excellent.. Exciting..  
Exclusive.. Expert.. Famous.. Fascinating.. Fortune.. Full..  
Genuine.. Gift.. Gigantic.. Greatest.. Guaranteed.. Helpful..  
Highest.. Huge.. Immediately.. Improved.. Informative..  
Instructive.. Interesting.. Largest.. Latest.. Lavishly..  
Liberal.. Lifetime.. Limited.. Lowest.. Magic.. Mammoth..  
Miracle.. Noted.. Odd.. Outstanding.. Personalized.. Popular..  
Powerful.. Practical.. Professional.. Profitable.. Profusely..  
Proven.. Quality.. Quickly.. Rare.. Reduced.. Refundable..  
Remarkable.. Reliable.. Revealing.. Revolutionary.. Scarce..  
Secrets.. Security.. Selected.. Sensational.. Simplified..  
Sizable.. Special.. Startling.. Strange.. Strong.. Sturdy..  
Successful.. Superior.. Surprise.. Terrific.. Tested..  
Tremendous.. Unconditional.. Unique.. Unlimited.. Unparalleled..  
Unsurpassed.. Unusual.. Useful.. Valuable.. Wealth.. Weird..  
Wonderful.

#### | 70 PHRASES STIMULATING ACTION

Close your ad with an action-getting phrase. Give the reader something to write or do. Here are 70 suggestions for ways to get action. Study them. They will help you prepare your copy for better results.

Act now!.. Send your name.. All sent free to introduce.. Amazing literature.. Free.. Ask for free folder.. Bargain lists sent free.. Be first to qualify.. Booklet free!.. Catalog included free.. Complete details free.. Current list free.. Dealers write for prices.. Description sent free.. Details free!.. Dime brings details.. Everything supplied!.. Exciting details free.. Extra for promptness.. First lesson, 25 cents.. Folder free!.. For literature, write:.. Free booklet explains.. Free plans tell how.. Free selling kit.. Free wholesale plan.. Free with approvals.. Full particulars free.. Get facts that help.. Get started today!.. Get your copy now!.. Get yours wholesale.. Gifts with purchases.. Illustrated lists free.. Interesting details free.. Investigate today.. It's Free!.. Act Now!.. Literature free.. Mail material to:.. Money making facts free.. No obligation! Write!.. Offer limited!.. Send today.. Only 10 cents to introduce.. Order direct from:.. Order Now!.. Don't Delay!.. Particulars free.. Postcard brings details.. Request free literature.. Revealing booklet free.. Rush name for details.. Sales kit furnished.. Sample details free.. Samples sent on trial.. See before you buy.. Send for free details.. Send for it today.. Send no money.. Send post card today.. Send 15 cents for mailing.. Send today.. Send your want lists.. Stamp brings details.. Stamped envelope brings.. Test lesson free.. Unique sample offer.. Valuable details free.. Write for free booklet free.. Write us first!.. Yours for the asking.. 15 cent stamp for details.. \$1 brings complete.. 32-page catalog free

BONUS !!!

THE 100 MOST THREATENING SPELLING WORDS  
in the Order of Their "Threat" to You

occasion.. recommend.. occurred.. principal.. equipped..  
accommodate.. disappoint.. possession.. privilege.. proceed..  
inconvenience.. accept.. business.. necessary.. personal..  
receive.. reference.. separate.. their.. whether.. questionnaire..  
criticism.. description.. effect.. extension.. judgment..  
quantity.. similar.. undoubtedly.. height.. immediately..  
stationery.. foreign.. fourth.. government.. omitted.. weather..  
personnel.. existence.. analysis.. across.. appearance.. loose..  
pamphlet.. practical.. preferred.. unnecessary.. affect..  
attendance.. incidentally.. apparent.. calendar.. professor..  
strictly.. principle.. already.. coming.. its.. oblige..  
opportunity.. original.. paid.. probably.. referring.. referred..  
there.. too.. writing.. among.. arrangement.. practically..  
convenient.. canceled.. really.. using.. beginning.. especially..  
volume.. committee.. confident.. difference.. endeavor..  
explanation.. except.. sincerely.. experience.. benefited..  
conscientious.. eligible.. acquaintance.. controversy.. exceed..  
laboratory.. omission.. procedure.. acknowledgment.. Wednesday..  
guarantee.. February.. schedule.

The Key is to combine your words: EXAMPLE: "THE MAGIC MAMMOUTH MIRACLE"; "The Three "M" Program"... This has already caught the attention and interest of your prospect! Now... for example say: The Money Making Facts are FREE! Merely Enclose your LSASE or \$\$ or Whatever! Fill in with a few details and you have a tremendous \$\$ Pulling Ad. Use your own Ideas, but build them around these words and phrases! but remember, your follow-up material, must be just as interesting to get the orders.

NOW: A little test... did you catch the misspelling of Mammoth (Mammouth)... well it's correct either way - the "ou" is used by the British!

HOW TO CODE YOUR ADS WITHOUT ADDING WORDS TO YOUR CLASSIFIEDS

Coding advertising is not the big secret or the involved process many would have you believe.

A great many firms sell reports on how to code your advertising for \$3 or more, when it's nothing you can't learn with a little study of a few mail order publications.

Coding advertisements is simply a means of determining where your orders come from, and in cases where you don't use coupons or separate order forms for several different products, a method of double checking on what the customer actually requested.

For the purpose of demonstration, let's assume you have a company called JONDO COMPANY, your name is JOHN DOE, and you market publications by PRINTCO and PUB-GUYS. You decide to run ads for different products in three publications and teaser ads for your catalogs in two others, one for each publisher's catalog. Coding the latter two is easy.

For simplicity, where you put the name and address of the company when offering Printco's catalog, mark the name as PC JONDO, ADDRESS, ZIP CODE. When the envelope arrives and no indication is given of what was requested, you can tell at a glance what was requested.

Now Printco and Pub-Guys sound and look alike, so for the second ad, mark it JONDO-PG. If you're advertising the same catalog in three different magazines, use different codes for each to see which one gives you the best response, for example JONDO-PG, JOHN DOE PG AND P.G. JOHN. You can easily separate them as you receive them.

The permutations are endless: P.G. DOE, P. DOE, G. DOE, DPG, JPG, JDPG, and if that's not enough, code the address, perhaps BOX 99, DEPT. PG, BOX 99-PG, BOX 99 DESK PG, BOX PG-99, and so on.

The person ordering wants to be sure you get his request and almost always faithfully reproduces whatever is listed as the correct address right down to the last comma. You can never run out of ways to code. PG is the obvious code for PUB-GUYS, but you could use an arbitrary number code chosen by you and in fact, number codes are invaluable codes for making dates on the ads, to see how many trickle-in orders you get long after the ad

stops running, and what months and season are most productive for selling your products.

Date coding involves using numbers in sequence to indicate magazine issue number, sequence number, or date published.

This coding is virtually essential in later campaigns. Once you've got a fair-sized mailing list, it will be far easier to use advertising codes to indicate their interests than to keep a complete ledger of every person and what they purchased. It also makes computer entry a snap, especially with a good filing program.

One thing that scares people about coding is receiving checks or money orders coded like the ads. People become somewhat afraid that they won't be able to deposit them because their account is registered to JONDO, not JDPG or whatever. Have no fear. Your company will be registered to your mailing address. By showing the clerk a copy of the advertisement with the address, there will be little doubt as to who should rightfully receive the money, and your checks or money orders will clear like clockwork. If by chance you do encounter a bank that won't accommodate this requirement, bank somewhere else where they understand the workings of mail marketers.

—  
GUERRILLA TACTICS THAT WILL GIVE  
YOU A GOOD CREDIT RATING

#### LEARNING HOW TO GET CONNECTED WITH GOOD CREDIT

Obtaining credit can be incredibly easy or extremely difficult. Once you have established credit, it can open doors of opportunity you never even considered being a possibility. Credit can allow you to take the dream vacation of a lifetime, drive a luxury car, dress in the latest fashions, achieve the American dream of owning your own home, or starting your very own business.

The fact is, now that society has rapidly shifted into the fast-lane of being a cashless society, it would be almost unthinkable not to have credit. People who have the misfortune of losing their good credit rating in today's world, will most certainly immediately begin to feel like social outcasts.

It is a very traumatic experience when people find out something is wrong with their credit. Millions of people have been, and will continue to be notified they now have bad credit. Many don't seem to understand how it all came about! What they do know, however, is that all of a sudden they aren't as well-off as someone who still has their good credit.

Without good credit, people soon discover it's difficult to just keep up with the no-frills, everyday existence items that are needed. Unless an individual knows how to improve, increase



and repair their own credit, they will have to overcome many obstacles.

Most people don't have the slightest idea of where to begin. But once you read the following "GUERRILLA TACTICS" you will learn how to quickly improve and repair your good credit starting Today!

TO PUT YOUR PLAN IN MOTION YOU MUST  
KNOW WHO THE CREDIT REPORTING AGENCIES ARE

Credit Bureaus are extremely powerful organization. Going against a credit reporting agency is almost like a military encounter. Fortunately, once you're armed with the Guerrilla Tactics provided in this report, you can rise to the occasion of winning both the battle and the war!

In the beginning it may appear as if Credit Bureaus have the advantage. After all, if you are an adult living in America, the overwhelming odds are that a credit bureau somewhere knows who you are, where you live, the name of every employer you ever worked for, how many times you applied for credit, how many times you were denied or approved, and how many time you were late in making a payment. Similarly, it's all in a credit report that once accessed by a subscriber, will tell them whether or not you should receive additional credit. The ultimate decision is arrived at by looking at the entries in your file.

#### MAJOR CREDIT REPORTING AGENCIES

- 1) Chilton Creditmatch Systems, 12606 Greenville Ave., Dallas, TX 75243
- 2) CIB "Credit Bureau Inc. "/EQUIFAX, P.O. Box 4091, Atlanta, GA 30302
- 3) Pinger Systems/Associated Credit Services Inc., 652 E. North Belt, Ste. #400, Houston, TX 77060
- 4) TRW Credit Information, 505 City Parkway West, Orange, CA 92667

TO ACHIEVE YOUR CREDIT GOALS, YOU HAVE TO OBTAIN YOUR CREDIT REPORT AND THEN ATTACH WITH PRECISION!

There are approximately 5,000 credit reporting and collection agencies operating in the United States today. If a credit problem exists it may or may not be brought to your attention. For example, damaging inquiries and variations may appear in your file without your knowledge. However, if you apply for credit and there is a problem whereby you were rejected, you would be notified by the lender and told that the credit application denial was the result of a credit bureau report.

If you either know or suspect you have a credit problem, there is no way to know what you are up against unless you get a copy of your credit report. This is where any major roadblock to getting credit will surface.

Even before you attempt to obtain or increase credit lines, you should first obtain all credit reports that are available on you. You can accomplish that by calling for one or more of the credit bureaus listed and asking for your credit report. There may be a small fee for this service. However, if your application for credit is denied by a creditor, then you can receive a credit report at no charge from the credit reporting agency. We recommend that you do not wait until a credit card company, bank, or other lender denies your application for credit, before you obtain the report.

Even if you don't suspect a problem, you should get a credit report on yourself just to identify any false or incorrect information that has been entered into your file. Damaging computer errors, human entry errors, incorrect social security numbers, addresses, employers, and income errors happen all the time. At the very least, you should make certain you haven't become the victim of computer error.

#### ACCELERATING YOUR CREDIT APPROVAL BY MATCHING & CONTROLLING CONNECTIONS

Bankers and lenders in a certain geographic area usually turn to one credit reporting agency. There are many, however, that subscribe to more than one. That can work in your favor because in many cases your complete credit history may never be accessed by a credit bureau located in another area.

Your credit file could list multiple damaging information in one credit report, but never show up in another! By obtaining your credit reports in advance, you will know which lender to approach for credit. All you have to do is ask!

#### HOW TO ACTIVATE A BANKER'S DESIRE TO FORCE MONEY INTO YOUR HANDS!

By applying for credit through a bank or other lender that subscribes to a credit reporting agency outside the area, there's every reason to believe that some damaging information will not appear in your file.

Remember, the only way bankers and lenders can survive is to extend credit to consumers. By taking steps to sidestep one credit report that has negative entries, and taking advantage of another that show you as a good credit risk, creditors will

practically force hard cash  
into your hand. Here's how:

- 1) Obtain a credit report from one of the credit bureaus to determine if there are damaging entries that might cause your credit application to be denied.
- 2) Call several banks of other lenders and ask the receptionist, etc., which credit bureau they use in their application approval process. If the individual tells you they don't know, ask them to find out.
- 3) Select a bank or lender that subscribes to a credit reporting agency other than the one typically used in the area.
- 4) Obtain a credit report from the credit reporting agency that your selected lender uses.
- 5) Repeat step number 4 until you find a report that is favorable to you and shows the least negative entries.
- 6) The only thing left for you to do is apply with that bank, lender, or other creditor that subscribes to the credit bureau that has a credit report the most favorable to you.

BULLDOG TACTICS SO POWERFUL THEY'RE DEVILISH!

When you receive your credit report, write down every piece of information that is inaccurate or untrue. Even if an entry is partially true, you may still want to dispute it. Especially if your credit report will be improved as a result.

Read all of the instructions on the back of your credit report very carefully. Symbols may be used for much of the information entered and you will have to understand each one. It's easy to become confused but a number you can call if you have a question will be provided.

Here are steps you can take to have damaging entries removed from your credit report:

- 1) Make a list of inaccurate or untrue entries that you find in your credit report.
- 2) Call the credit bureau and tell the appropriate person that you want to dispute an entry you have noted on your credit report.
- 3) Don't allow any credit bureau employee to talk you out of proceeding with your appeal. To avoid a distracting confrontation, don't even tell them you want to challenge. They won't initiate any action on your behalf anyway until they receive your appeal request in writing.

- 4) To initiate the proper appeal procedure, ask the person you speak with to send you a "Dispute Form."
- 5) Complete the "Dispute Form" and return it to the credit bureau by certified mail.
- 6) When the credit bureau receives your written dispute request they will then attempt to verify the dispute you have indicated with the bank, lender, or creditor responsible for having the damaging information listed.
- 7) You will be notified of their decision within 30-45 days.

This technique will work for you to eliminate negative entries from your credit report for one of two reasons. 1) Most creditors don't hang on to old files. They either place them in storage or throw them out. That means they won't be able to easily verify your dispute, if at all! 2) Many other past creditors simply don't care to waste their time verifying the accuracy of a credit report that isn't relevant to making money right here and now!

That is the basis of why credit repair clinics were so successful when they came on the scene. They knew from experience that by created a flood of challenges directly to a credit bureau, sooner or later creditors who continually received inquiries would become frustrated and simply not respond. They also knew that if the credit bureau didn't receive a response from the creditor they mailed an inquiry to, on your behalf, within 30 days, the damaging remark by law had to be removed. Thus, a cleaned-up credit report.

BEWARE OF DOUBLE-TROUBLE  
CREDIT REPAIR CLINICS

"Credit Counseling" and "Commercial Counseling" services are two completely different things. Before you sign any papers that end up causing you even more financial harm, you better know who you are dealing with!

Whereas credit counseling services are generally non-profit, commercial counseling services (clinics) may charge you 10%-15% or more of your total debt. Meanwhile, the services provided by the non-profit agency is basically the same.

"GRAND-SLAM SUCCESS"  
DOESN'T HAPPEN BY ACCIDENT!

Just about everyone at one time or another has experienced some kind of problem with their cash flow. That's when it became difficult to pay the monthly bills and keep up with credit obligations. When that happens, damaging information may begin to appear in your credit file,

and bad times can become even worse.

For many people it becomes difficult, if not impossible to obtain any further credit, just when there is a desperate need for it. Unfortunately, banks, lenders, and other creditors do not extend credit on the basis of need. Credit can swiftly be taken away from anyone who cannot demonstrate they are a good credit risk.

Most people can be successful in overcoming credit rejections that have resulted due to damaging information showing up on a credit report. The problem that most people run into, is that they become desperate and will resort to anything and anyone that comes along with false promises. Then they find themselves in deeper trouble because they've handed out more money they don't have, to a crook who gives them nothing in return.

Giving yourself a grand-slam, clean-credit slate doesn't happen by accident. There are a number of techniques and methods that can be utilized to create or restore a good credit record.

The following information is being provided to you on the basis that it has been successfully used by others. None of the information is being recommended as techniques you should use. If you decide to use any of the information contained in this report, it is recommended that you first consult with an attorney to obtain legal advice.

#### TACTICS & TECHNIQUES THAT MAKE COLLECTION AGENCIES BEG FOR MERCY!

The "Get-Off-My-Back" Wage Earner Plan!

Using Federal Bankruptcy Act, Chapter XIII - Wage Earner Plan, you can file for immediate relief from unmerciful creditors and collection agencies. To be eligible, your monthly bills must exceed your income, and your major income must be earned from a salary or commission.

You can file for the Wage Earner Relief Plan simply by contacting your attorney or the U.S. District Court nearest you. Ask to speak to the person who administers the plan.

Generally within three days of filing, a restraining order will be issued to all of your creditors. Which Will:

- 1) Stop creditors, collection agencies, lenders, or anyone else who has been notified from contacting or harassing you any further.
- 2) Immediately stop all action against you that had been initiated

by creditor. (Note: For this relief plan to work, it must be accepted by a majority of your creditors. If the majority agrees to the plan, all others must comply.

3) Immediately stop interest and late charges from accumulating any further.

YOU CAN SEEK INJUNCTIVE RELIEF THAT  
FORCES CREDIT BUREAUS TO STOP REPORTING  
NEGATIVE CREDIT INFORMATION FROM YOUR FILE!

"Injunctive Relief" is an effective legal maneuver that can permanently remove damaging information from your credit report. You will, however, probably require the services of an attorney. This is how it works!

If you can clearly demonstrate that information appearing in your credit report is inaccurate and is damaging your character, credibility, or ability to obtain credit, you can seek Injunctive Relief through the courts. Once relief is granted, a Judge can order a Credit Bureau to immediately stop reporting any damaging information appearing in your credit report as outlined in the order, until such time as a trial or investigation is conducted.

After you, or your attorney, succeed in persuading a Judge to issue an order for Injunctive Relief, you will have from that moment on until the conclusion of a trial or investigation, to obtain new credit.

THE "HERE'S JOHNNY!" CHANGE OF ADDRESS METHOD

Here is another way you can eliminate damaging entries from your credit report:

1) You can magically appear in a completely different part of the country from where you really live, simply by creating a new address for yourself. Just ask a friend or relative to receive your mail at their address and have everything forwarded to that address. The further away, the better. If you don't know anyone that lives well out of the area, rent a mail drop location. All of your mail will be forwarded by the mail drop to any address you like.

2) After you have established a new address, you can request a credit report from the bureau that services that particular area. Apply with lenders that use this bureau. What you will generally find is that the credit bureau you are now dealing with will have a limited ability to verify negative items appearing elsewhere.

CHECK BANKRUPTCY OFF YOUR CREDIT FILE,  
BY CHECKING IT OUT!

The following method of manipulation works (according to some

who have used it) when combined with the precious "change of address" method. Just follow these next five steps!

- 1) Discuss the technique with an attorney who is willing to help.
- 2) Because bankruptcy is overseen by federal courts, bankruptcy files are kept in the federal archives.
- 3) Before you apply for credit have your attorney request to have your file "checked-out" from the federal archives.
- 4) Using your out-of-state address as described in the previous "change of address" method, follow the normal procedure used for appealing any damaging information appearing on your credit report.
- 5) As long as your attorney has your bankruptcy file, a credit reporting agency will not be able to verify its contents. If they cannot make verifications within 30 days, they must remove the damaging information from your credit report. Because credit bureaus can request an extension, your attorney may have to repeat the process several times. It becomes a question of who will tire first. According to those-in-the-know, it's usually the credit bureau.

#### TELL YOUR SIDE OF THE STORY AND "SMASH" DAMAGING ENTRIES

Another way to challenge and neutralize entries that appear on your credit report is by taking advantage of the "100-Word Consumer Statement." This method allows you to tell everyone who obtains your report your side of the story. A simple statement may be all it takes to convince a bank, lender or other creditor that a negative piece of information that is appearing in your file, was nothing more than an unfortunate incident that couldn't be prevented at the time.

For example, you have been laid-off with hundreds of other workers and suddenly found yourself out of work. By telling your side of the story, a lender will understand why you had problems paying off your credit obligations.

Be certain to be sincere, honest, and not too wordy. Never express anger or hatred. Allow creditors to give you the benefit-of-a-doubt, and the credit you deserve. Ask the credit bureau about placing a 100-word consumer statement into your file.

#### HOW TO REMOVE A JUDGEMENT THROUGH A "MOTION TO VACATE"

People have reportedly removed damaging entries (such as

judgments) from their credit files by using the following method:

- 1) Hire an attorney who is willing to help you with your goal of having damaging entries removed from your credit file.
- 2) Ask your attorney to file a motion of Service of Process for the purpose of having a damaging judgment entry removed from your credit file. It may be a weak argument for sure, but in this motion, your attorney will argue that the process was served improperly. People have reported that this technique will ultimately work in your favor.
- 3) By filing a motion of "Service of Process" you are forcing a creditor to appear in court with an attorney to prove the initial legal process was done properly.
- 4) This legal maneuver works in your favor because, if the lender responsible for the judgment (for example) has been paid, why would he even want to go through the time and expense of showing up?
- 5) If you show up and the creditor doesn't, you will win your case through default. Then you will have the legal ammunition necessary to have the damaging judgment information removed from your credit file.

#### HOW TO UNCONDITIONALLY FORCE CREDIT BUREAUS TO QUICKLY GIVE YOU THE ADVANTAGE BY PLACING POSITIVE INFORMATION INTO YOUR CREDIT REPORT

According to Federal Laws enforced by the Federal Trade Commission (FTC), if a credit report results in a debtor's application for credit being denied, that person has the right to add information that will show a more positive credit history.

All you have to do is contact the credit bureau of your choice and ask them to contact a list of banks, lenders, or other creditors whose names you will provide, for the purpose of having the credit information they provide on you added to your credit file. There may be a small fee, but the good news is that you will practically be able to force a credit reporting agency to improve the substance of your file by putting positive entries on your credit report.

The only businesses you should list are those with whom you have had a flawless credit relationship with. Contact the people on your list and let them know a credit reporting agency will be calling or send them a questionnaire. After information has been received and verified, the bureau can add positive items to your credit report.

#### THE EQUAL CREDIT OPPORTUNITY ACT & WOMEN



Under the Equal Credit Opportunity Act, women have the right to build up their own credit without being discriminated against. Women who do not apply for credit in their own names are at a distinct disadvantage. In the event of a divorce or death of a mate, there wouldn't be a credit history reflecting any personal contributions.

Under the Equal Credit Opportunity Act there is not reason for women to lose their identity when they are married. You can become familiar with all of your rights as a woman by writing to the following address and asking for your FREE copy of "WOMEN & CREDIT HISTORIES."

Federal Trade Commission  
Washington, DC 20580  
ATTN: Women & Credit Histories  
FREE BROCHURE

#### EFFECTIVE RADIO COMMERCIALS

When you think of mail order, you probably think in terms of advertising in the magazines and newspapers, possibly even direct mail. These are the standard and accepted advertising forms of getting orders by mail.

But there is another way. Whether it can be a better way for you will depend on what you are selling and who your prospective customers are. The alternative advertising medium is RADIO. Think about this for a moment. When you run your ad in a magazine, chances are it is somewhat specialized and read by only certain types of people. Even if a particular magazine boasts a circulation of a million readers, only a very small percentage of them will ever see your ad (unless it is a very large or full page) and even fewer people will respond to it.

Magazine advertising is a consumer-active medium which means that readers are forced to use their time and energy to read your ad in an effort to find out what you have to offer. Radio, on the other hand, is a PASSIVE medium. Listeners are not required to do anything. They are already listening to their favorite music, news or talk show, and they do not have to exert any effort to receive your message.

#### LISTEN FOR THE SOUND OF ALTERNATIVE ADVERTISING

Many advertisers have discovered that their particular business or product line can become ear-appealing, and can be successfully promoted and sold via a professionally created radio campaign. A good radio commercial can often equal or surpass any other type of advertising that you are presently using, or plan to use.

## MATCHING YOUR PRODUCT TO A MASS AUDIENCE

Radio consists primarily of the general population. You cannot single out a specific group of people from the masses and ask them to listen to your commercial while the rest of the audience turns a deaf ear to what you have to say. Your ad message on radio will be heard by everyone listening, so your product or offer should have mass appeal to be successful. The only true advantage that you will have to work with is the fact that radio stations broadcast to specific demographics or distinct age groups. The Top-40 station will broadcast to reach teens and early twenties; the oldies station will be appealing to the 30-50 age group; the station playing American Music Classics will be aiming at the over 50 age group, and so on.

You can target your market by selecting only the station(s) that reach the market you want to sell. If your offer is for those in their teens and twenties, you will naturally want to get your commercial on the Top-40 stations, but if you want to reach the older audience, possibly senior citizens, then you'll want to advertise only on stations that play music or broadcast their programming to this audience.

## WHAT SELLS BY MAIL ON RADIO?

The best offers are those that have a proven success rate. Offers that have been successful on radio include:

- \* Records/Cassettes/CD's
  - \* How-To-Books
  - \* Insurance
  - \* Diet Plans/Products/Books
  - \* Self-Help Materials
  - \* Vitamins
  - \* Specialized Gift Items
  - \* Employment Offers
  - \* Business Plans
  - \* Video Tapes (Specialized)
- ...and a wide variety of specialized information

This list is not complete, of course, because there are many items, products or "things" that can be successfully sold via a well-produced radio commercial, each depending on the audience.

If you sell something in one of the categories above, you have a good chance of selling it successfully on radio... if you do it correctly. First of all, if you are used to selling via display ads in magazines and newspapers, you probably close your ad with "send \$24.95 (or whatever price) now to receive your zipperdinger"...and follow that with a order form. Surprise! On radio there's no order form for prospective customers to fill out.

With all space advertising you learned to offer plenty of benefits and to make it easy for the customer to order. Same applies to radio - even more so. The absence of a convenient order form means you have to make it as easy as possible for your customer to respond to the message they've just heard. The easiest way is to replace your address with a phone number

Take it one step further and give listeners a TOLL FREE NUMBER. Yes, install an 800 number. The next step is (if you don't already) to accept CREDIT CARD ORDERS.

These two steps are your KEY to using radio successfully. To make this work profitably, your selling should be a minimum of \$29.95 for whatever you are selling... with a maximum of about \$150. Anything above that amount will probably require that you sell on the installment plan. For example, if what you have to offer is priced at \$379.95 then you ask for a small deposit (via check or charge and you will bill them for the balance to be paid in (for example) six easy payments of \$60 each.

It probably wouldn't be worthwhile selling via radio if your selling price was only \$5 or \$10 unless you were using this as a leader offer just to build a customer list, in which case it might be worth testing. To build a bigger prospect list, however, and a lot faster, you might want to test the inquiry method commercial. Nothing attracts interest like the magic word "FREE" or when listeners hear "NO COST OR OBLIGATION. JUST CALL 1-800-000-000 AND LEAVE YOUR NAME AND ADDRESS. WE'LL SEND YOU COMPLETE INFORMATION BY RETURN MAIL - ABSOLUTELY FREE!"

If you've matched your audience with your offer, a "No Money" approach will produce a truckload of prospects.

When using an 800 number to call you, each will cost approximately 23 cents, but it can be worth the cost if you have a good product with a large profit markup. The costs, the time and trouble of installing a toll-free number and arranging for Merchants Credit Card Status at your local bank can ultimately double, triple or quadruple your orders and, quite possibly mean the difference between success and failure for your radio commercial campaign.

#### WHERE AND HOW TO GET YOUR COMMERCIAL

Most radio stations on which you plan to advertise will offer to write your radio script for you. In most cases, DON'T LET THEM. Especially not the smaller home town station. These stations are generally understaffed and have neither the talent or facilities to turn out a good commercial for you. They mean well, but the sad fact is, they will normally turn the job of writing your commercial over to a secretary to do in her "spare" time, to the sales representative that took your advertising order, or even the D.J. to write between records.

A large station, on the other hand, will probably have a professional radio copywriter on the staff, in which case you might get a good job. So, before you sign any contract or pay for commercial time, ask if they have a professional radio copywriter. If not, put your commercial contract on hold.

You must remember that your commercial radio script needs another element to get it on the air where it will become effective: a voice! To acquire the right voice for your needs, listen to all the stations in your area, especially the commercials. When you hear one that is especially effective in style, tone and delivery, make arrangements to "hire" that voice

for your commercial. If you hit it lucky by hearing the voice you want to use on a station that fits your offer, BINGO! You can just hand over (a copy) of your commercial script to them and tell them exactly who you want to use to record it. YES - Record it. This is the only sure way of controlling your message. Otherwise, the station might have your spot read "live" on the air, by any D.J. or announcer who is on duty when it comes up on the schedule, and you will be at the mercy of each of them.

One announcer might do a fair job, while another might slur through it or even mispronounce words, mis-read the phone number, or otherwise mess it up for you.

But once your commercial has been recorded and you are pleased with the result, you can be sure that it will sound exactly the same every time it is aired... even when aired on other stations. So ask for dubs (copies) of the tape at the time it is recorded. You might pay a few extra dollars for this service, but it's worth it. Some stations won't charge extra while others will add \$3 to \$5 or more for each dub.

When airing your commercial in your own locality, an 800 number won't be necessary, but you will need it when expanding your radio advertising throughout your state and around the country. Keep in mind that there are hundreds of radio stations in the U.S., so if your initial test is successful, you'll want to branch out to blanket the country in a short time.

If you explain your plans at the time your commercial is recorded, they might do it twice for you at no additional charge, if they want to create good will; once for local airing using your local number, the other inserting your toll free number.

#### COLLECTING ON CREDIT CARD ORDERS

No, you don't HAVE to offer credit card options, but you will get much more business (some estimate as much as 300% or more) than when asking for payment in advance. If you already own a business and offer the credit option, there's no problem. But when just beginning a new business - especially if you plan to operate from your home office - it can be difficult (if not impossible) to obtain a merchants credit account from your local bank. For reasons of their own, banks do not normally accept home operated business; they like to know you have a store, shop, or other building in which your business will operate.

If you run into that obstacle, there are alternatives. One is an organization called "Entrepreneurs of America" founded by Ted Nicholas. They will process your credit card orders (if you become a member at \$50 per year) at reasonable rates. Write to them at: Entrepreneurs of America, 2020 Pennsylvania Ave., Suite 224, Washington, DC 20006. Or phone (800) 533-2665

Another is for those who sell books, magazines or other printed products: The American Booksellers Association. Members of ABA can have their credit card orders processed through their program. For membership information write to: American Booksellers Association, 122 E. 42nd Street, New York, NY 10168.

Still another alternative is a company that offers a business telephone answering service that will handle your inquiries or orders. They will also process your credit card orders for you when you subscribe to their service. Contact: Mountain West Communications, PO Box 216, Hotchkiss, CO 81419. Phone: (800) 642-9378.

Finally, contact Eden Press, Box 8410, Fountain Valley, CA 92728. Owner, Barry Reid, offers to help mail order marketers obtain credit card processing.

When using alternative collection services, you will pay a small percentage to have your orders processed, but it should be worth it in the long run if you can increase your business dramatically.

You need a good product that will appeal to a mass audience, and just one good commercial to really make a killing on radio. Test locally and regionally at first, then spread the word throughout the hundreds of radio stations in the USA.

#### CHOOSING A BANK THAT'S RIGHT FOR YOU

It is important to select the right bank. Do NOT choose any bank-be fussy! There are two main objectives to seek when searching for a new bank. 1.) Find a bank that is aggressively seeking new business. 2.) Choose one with which you can develop a personal relationship.

To select a bank that is aggressive, simply watch for extended advertising campaigns. They are very costly, and must bring in new business in order to be continued.

Look also for smaller banks, ones with just a few offices. They tend to be more aggressive, more lenient on qualifications, much friendlier and more personalized in the service they offer. They are forced by nature of their competition to be more flexible.

With the small, independent bank, you will get friendly service, and often will be called by name. The tellers remember you and do not need to request your identification every time you want to cash a check. Small banks do not have a large loan committee that spends lots of time shuffling papers. They may however, stall your loan application for a day or so in order not to appear too anxious! Its a minor issue...and not one to be overly concerned about.

Big banks seem to have forgotten that the customer is number one. You will

be far more pleased with your small bank and your personalized service when it comes to getting loans and other services for your own business.

#### \$100,000/YEAR RECESSION-PROOF BUSINESSES

Some businesses seem to strengthen in times of recession. When the economy starts to slow, people start looking around for ways to cut back on expenses, and they give up the frivolous items in favor of the basics.

Despite the recession, the health care industry is swelling with opportunity. Health care is more expensive than ever, and the health care community provides more services than ever. And, as the baby boomers age, the market promises to grow ever larger for products and service that help people live longer, live more comfortably, and live more enjoyable in old age. While you may be likely to come up with some astounding new medical breakthrough in your garage, you may be able to profit from by establishing a delivery service or selling health care products that will generate hefty revenues.

As we said, people don't cut back on their intake of food just because a recession is underway. Instead, they will cut back on the fancy stuff and take a renewed look at how the basics can be made to satisfy their need for variety. A fresh fruit and vegetables always look good. If you have at least a small plot of land you can grown enough food to make a surprisingly good living.

Death is another part of the life cycle that isn't going to stop for a recession, and a well-run funeral parlor will weather the economic storms.

Debt collection is another area that remains steady in good times or bad. If you like telephone work, you can develop a clientele that will rely on you to collect on overdue bills through the courts.

Plumbing, electrical, roof repair, exterminating and other vital home repair functions will continue to thrive in periods of recession. If homeowners put off maintenance and repairs, it only means that ultimately they will pay a higher price for a greater amount of work.

In bad times, there are always ways to thrive, if you are perceptive and agile. Never feel that because a recession is under way that there are no opportunities open to you.

#### MONEY FOR YOUR BUSINESS - UP TO \$750,000 GUARANTEED!

Roughly 98 percent of the companies in the United States qualify as small businesses - and most of these businesses are eligible for U.S. Small Business Administration loans up to \$750,000, available to build their operations.

To these businesses, the SBA guarantees of 90 percent on lenders loans up to \$155,000 and guarantees of 85 percent on larger

loans. The SBA even makes direct loans to eligible individuals and companies.

As with any business loan, the SBA and its associated lenders look at the applicant's personal credit history, the business financial profile and management experience, and the growth trends in the applicant's industry.

Among SBA objectives are greater support for women and minorities in business, aid to rural small business development, and urban business and job creation programs.

The 7 (a) loan guarantee program is the SBA's standard program. It aids small businesses needing funds to buy fixed assets or for working capital.

In the 8 (a) program, the SBA acts as prime contractor, contracting with other federal agencies to negotiate subcontracts with small businesses owned by socially or economically disadvantaged individuals.

In 1987, 370,000 companies in the U.S. were owned by Asians, American Indians and other minorities. The SBA made over 1600 loans totaling over \$400 million to these companies.

There were more than 420,000 Black-owned business in the U.S. in 1987, up almost 40 % from 1982. The SBA made more than 500 loans and over 1600 8 (a) contracts totaling over \$1.4 billion Black-owned companies in 1990.

Over 420,000 businesses were Hispanic-owned in 1987, up more than 80% since 1982. A number of these firms took part in SBA programs.

Disabled and Vietnam-era veterans who cannot secure business financing on reasonable terms from other sources can go to the SBA. Veterans can use these loans to start a small business, or to build an existing business.

Small companies in the field of energy conservation can find financial support in the SBA's Small Business Solar Energy and Conservation Loan Program. Loans are available to a broad range of companies seeking ways to cut use of U.S. energy resources.

The SBA's Small Loan program encourages SBA-guaranteed loans of \$50,000 or less. Applicants should ask for the SBA Form 4 short form to apply for the small loans.

The recent microloan program offering loans of \$200 to \$15,000 makes SBA funding available to even tiny businesses.

The SBA HAL-1 and HAL-2 programs help handicapped individuals and nonprofit workshops to establish, purchase or run a small businesses

The SBA's Certified Development Company (CDC) loan program offers credit for small and medium sized businesses that fall between the cracks of programs covered by traditional lenders. And the Export Revolving Line of Credit program helps small exporters to obtain an SBA guarantee on a loan or line of credit.

The SBA operates an information desk from 9 a.m. to 5 p.m. EST. Monday through Friday. Call 1-800-827-5722 (1-800-U-ASK SBA)

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Look also for smaller banks, ones with just a few offices. They tend to be more aggressive, more lenient on qualifications, much friendlier and more personalized in the service they offer. They are forced by nature of their competition to be more flexible.

With the small, independent bank, you will get friendly service, and often will be called by name. The tellers remember you and do not need to request your identification every time you want to cash a check. Small banks do not have a large loan committee that spends lots of time shuffling papers. They may however, stall your loan application for a day or so in order not to appear too anxious! Its a minor issue...and not one to be overly concerned about.

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#### THE SECRETS OF INTERNET AND ONLINE MARKETING

You probably already use the Online World for many things. Whether you use it for entertainment, research, sending E-mail to friends and family, or just discussing numerous subject topics with others.

Of all the things you can do online, there is one that you should definitely know how to do. MARKET ANY BUSINESS ONLINE!

That's right, with the power of the Online World to reach millions of people, Online Marketing is definitely an awesome tool that no business should be without. Just because of the



simple fact alone that advertising is practically FREE. The ability to get the results of thousands of dollars in free publicity is practically unheard of in business today. Only recently have more and more people figured out how to utilize the ever exploding Online World to market their business efforts.

Think about it, there is probably no business in existence that could not benefit from free publicity! And the fact that properly utilizing free advertising raises net profits to unbelievable levels! Using any or all of the major online services, or the INTERNET, can help you market your business efforts.

Let's start with plain-old advertising. On America Online, for example, they will let you place classified advertisements for FREE! They have a variety of classifications to choose from. By placing these small free ads you can generate some very quality leads that can turn into sales. Or if you are a really good marketer you could sell something straight from your free ad. Wouldn't that be something, using the actual free ad to do all of the selling.

The other services offer free advertising from time to time. When they do charge for classified ads it is usually very inexpensive, and still a great deal considering how many people those ads can reach. When you place any advertisements you should always "code" your ads. This means put something in each individual ad that will tell you, if you get any business from it, which ad it came from. This way, you will probably find that some sections are better producers than others, and you will want to concentrate on these sections and not the ones that weren't making any money.

To code an ad you could make them request a certain "report" on more information. You should give each report a different code for each ad. Such as: "ask for report #1tv", this way you would know that this request came from the ad in the televisions for sale category, and so forth. If they send you an order straight from the ad, make them give you an order #, which would be different for each ad. THE MAJORITY OF PEOPLE WHO ARE ADVERTISING ONLINE ARE NOT USING THESE AD CODES!!! THIS IS A MAJOR MARKETING MISTAKE!!!

By not tracking exactly which ads are making money, they are wasting their time by continually placing ads in "loser" categories. The actual code can be anything you want to assign to it. ALWAYS keep track of every ad you place. Make a note of what it said, where and when it was placed. You will be pleasantly surprised when you analyze your "ad data" and see some positive trends developing. Just repeat these trends and it will help you to make more money!

How would you like to find a name list of several hundred (or even thousand) people who might be interested in the particular product or service you are selling based on their jobs or interests? Wouldn't that be great!? Well, you can! And the Online Services supply this service as a part of your regular membership.

This little unknown tool is called the "Member Directory!" You

can do searches in the directory for other users with certain characteristics. For example, if you were selling fishing equipment, you could do a search by "fishing." All of the people that were registered in the directory and had listed fishing as one of their hobbies would show up on that search list. You could now send each one of those people an e-mail message telling them about your product or service, it's just like using a mailing list, but you have no postage! (\*Make sure you check with your Online service to see if they allow unsolicited E-mail.)

You can also get the names of several prospects by doing some "browsing" in the different topic forums. Using the earlier example of looking for people who fish, you could look under sports until you found a discussion on fishing. You could then take note of the users' names that were participating in the discussions. You could do the same thing on the INTERNET with one of the many newsgroup topics that they have.

The bottom line is that you "test" and record the results of your Online Marketing efforts. Then just repeat the steps that are making you money and expand on them to reach more people.

Doing simple research on the Internet. The Internet has several mailing lists that are dedicated to marketing on the Internet. You will also find hundreds of articles on the World Wide Web. By searching one of the WWW search engines like Webcrawler you can find all the information you can read. Use search strings such as: "online marketing", "internet advertising", "selling online", and so on.

You can also find many books on the subject at your local bookstore or being advertised online.

#### SUPER SALES BOOSTERS YOU CAN START FOR NEXT TO NOTHING

Maximizing profits involves cost-cutting methods of selling your products. We are assuming for this article that you, like most marketers are specializing in information and publications marketing.

The best way to increase sales cheaply and effectively is to offer more items at any given time, and here's how to do it. By all means examine every commission circular you see for possibilities. It might be worth carrying. Camera-ready circulars are available for most of the publications you see in your mailbox, and all you need are a group of them on file that can be reprinted as needed.

In all cases, we repeat, DO NOT rubber-stamp your commission circulars. Insert your name and address with dry type such as Pres-Type, Geotype or Letraset. A professional appearance is a must.

If you've been in business for a while, you already know what your bestsellers are and how to test new items. If you have reports collections and other good items that are not such hot sellers, keep your leftover circulars and include them WITH PRODUCT when you fill an order from your home. Include as many

as you can up to the postal limit that applies to the product, and you're basically sending it free of charge.

As you have probably seen by now, we advise all our customers to shop wisely but to continue learning about the business, and if you have a slow-moving product which is nevertheless is an excellent item for a small order dealer to own, this is an ideal way to move it.

It's an excellent idea to include a freebie when doing a direct mail. This works especially well if you're handling a lot of popular items. Chances are a good many of your packets will go to people who try to get on a number of lists to keep abreast of the latest offers, and since so many of them are so vague, they'll be much more responsive to someone who can give them an idea of what they'll be receiving.

If you currently handle chain letters and report collections of dubious value, it might be cheaper to drop them altogether than to continue to include them, even if they do make you a small profit. First time buyers are truly shocked when they see some of the terrible scams going around in mail order, and you'll lose them forever if you turn them off, which is never your intent.

You can make this absolutely painless. You might like to try putting your best reports on the backs of your best circulars, maximizing the value of each sheet of paper. If you're not doing it now, you had better try doubling up your circulars at the very least.

One of the best follow-up offers you can give your non-dealer customers, and you can tell which if your customers is a dealer and which is not by the kinds of items they order, is a quality book catalog. Melvin Powers, DAX and others offer excellent dealerships in unusual books, and they pull extremely well on follow-ups.

The catalogs themselves are usually fairly heavy and not cost-effective without a quality mailing list (a rare bird indeed) or unless you can get cash up-front for printing and mailing. You'll probably wind up buying some of these books yourself! If you're marketing fairly common items, you've got to have an advantage, something that makes your offer look better than comparable offers for the same items.

Unquestionably, the best advantage is a lower price. Free bonuses and rebates won't cut quite as well. The reason is simple enough. The customer might be sold on an item to begin with, but he may be waiting for a better deal to come along. If you're the lowest bidder, you'll get that sale. These sales will not come right away in most cases. They will be trickle-in orders, made by the customer after filing your circular and waiting to see who can match the price.

We feel much of the information offered by mail is ridiculously overpriced when introduced, and we have on file dozens of examples of some people offering item X at five, then, even nineteen times the best price offered by others with the same product.

If you've been enclosing your own envelopes with return addresses when you send out advertising, you might try a half-and-half mailing to see if they're really pulling more orders.

Traditional schools of thought say the return envelopes, especially the business-reply type which allows you to pay the postage for the customer, do pull orders.

However, most people use plain printed #8 envelopes without business-reply marking, and especially for the small operator specializing in a few selected items, it may be a poor investment. If so, it's cutting into your profits and taking up valuable weight in the envelopes better served by a circular.

Adsheets can be good investments, but in most cases you'll only really profit from them if you're offering something you've developed yourself which can be sold through other dealers.

Adsheets are generally advertising's version of the pyramid plan. They circulate only among small time dealers, each trying to get the other to sell what he's selling. Still, if you can put a new twist in the advertising, and run a short ad in selected adsheets (most dealers receive a large number, and subscribing to several dozen is wasteful) asking for full purchase price when they order, and NOT requesting information, you could still do a profitable business, although the cost involved adds up to much more than the usual \$1 for a one-column ad. You have to figure your costs in preparing the ad and getting it to each publisher.

If you have an article you've developed yourself and you want to put a big push on, a great number of dealers will print and mail your circulars with theirs. The cheapest deal is to have their ad printed on the back. Many of these firms will take your money and run, however, so it would be smart to call and write first, get references from happy customers, and talk to them. If he won't reveal his customer list and still claims to do a good job, well, need we say more?

Don't be afraid to compete with other dealers in a print and mail deal if you've got a good product, but you do your homework. It is probably the most cost-effective way to reach a large number of dealers, but take care that you choose a reputable dealer.

Multilevel enthusiasts know that many of the better multilevel programs requires substantial amounts of literature to fully explain. If you're not prepared or equipped to expend the time and money required to let every mail prospect know about the programs you're using, why not make up a small half page circular which briefly outlines each program, and offer to refund postage for anyone interested in learning more? That cuts your expenses, gives you inquiries of real value and should take no considerable dent in your eventual downline.

This takes five minutes, costs pennies, and give your commission circulars a personal touch that also looks professional.

Please stop writing hand-written notes and changes of copy on your commission circulars! Save those hand-written notes for

leaders. A close matching letraset message will print beautifully and get the message across much more effectively than a freehand note. When using letraset, take care to make the heading on a separate set of paper, clip the heading and tape it with Scotch brand magic tape (we recommend Scotch because it has a lower peel strength than competitive translucent tapes and is easier removed).

Don't do your first heads directly onto the circular or you'll end up with minor mistakes that detract from the impact. Notice how sloppy the "K" looks, and how small a mistake it took to make it that way? (Believe us, your clients will notice mistakes like that!).

One cost-cutting method we do not advise is folding your circulars so an outside surface is empty, taping it and mailing it like a newsletter, without an envelope. It looks just plain shoddy. One thing that does look good, however, is the white 9x6 envelope instead of the usual wheat-yellow manila envelope. Anything different makes an impact.

Speaking of different, try a few of your circulars in two colors, perhaps red and black, especially those which many other dealers are using. It does pull more orders on a competitive item. And don't forget about using colored stock for a few sheets (NEVER for your personal notes), but not too many.

If you want to keep your customers for repeat business, don't become a commission agent for mailing list firms unless you have thoroughly researched and used their lists yourself. We personally know of one firm which advertises premium lists, and offers a very attractive dealership, but they have no trouble at all selling our name to no fewer than 25 people in a four-month span who all offer the same product! Those poor people wasted not only the cost of the list, but the cost of the mailing as well, and that is an absolute travesty.

By all means, use your personal letters to inform the paying customer of services you've had success with. This tells the customer you're serious about his satisfaction and if he experiences the same success, he'll trust you enough to order from you again.

And if you know of any popular plans that are no good, and you have seen that the customer might be considering such a plan from a letter or group of purchases which indicate he's heading in that direction, tell him to steer clear.

Finally, and this is absolutely vital to getting reorders, know exactly what you are offering. If you're selling books, own a few of them and read them. If you're selling plans and reports, check them out to make sure they really do what they claim. You are doing your customers a horrible disservice by advertising Plan A as one of your biggest sellers (which may be true) when it's an outdated piece of junk and maybe something you have never even seen.

If you're selling gifts from catalogs or other related merchandise, there are really only two things we can advise that will cheaply help sales.

First, if you're selling catalogs and having your orders dropshipped from the supplier, write the home office and tell them you'd like to establish contact with other distributors to help each other increase efficiency.

It is highly unlikely this request will be turned down. The supplier is every bit as interested in increasing sales as you are, and will probably be happy to send you the names and addresses of some of the company's top producers.

Establish regular correspondence with these people and exchange information on what campaigns and techniques are working for you.

If you're selling products for which you are the prime source, don't hesitate to send advertising for your other products when you fill orders from newspaper or magazine advertising. If you don't have other products, work an exchange program with other sources and sell their products on commission, and drop-ship the orders from the source of supply.