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Every day, thousands, perhaps even millions, of people come up with new business ideas. There are restaurants they would love to open, shops they’d enjoy owning, and all sorts of high-tech companies that they wish they could start. Would-be inventors have ideas for time-saving inventions and artists dream of using their talents rather than working nine to five for someone else. Unfortunately not everyone is in a position to take the risk and become an entrepreneur. For some it is simply not practical with mouths to feed and bills to pay, while for others there is just too much at stake to take such a chance.
Then there are those who have the opportunity to make a go of it. Perhaps it is someone young and ambitious with few responsibilities and no family to take care of. Maybe it’s a stay-at-home parent who has the extra time and funding to make a go of a new business while taking care of a young one. It might be a husband and wife who have worked long and hard to save up and strike out on their own; or a couple that has retired from their long careers and wants to start afresh in their own enterprise.
The point is, there are many people from many different life situations who are enthusiastic about opening a business. If that is you, don’t be frightened off by new business success and failure rates. Instead, be enthusiastic and prepared to work long and hard to make your dream of being a business owner a reality.

Owning a business isn’t easy, but can be very rewarding, especially if it is a business that also represents your personal passion for the planet and the environment. Green businesses are cropping up all over the country and around the world, while established businesses do their part to make the necessary changes and improvements to get in step with the times. Today, not only can you satisfy that dream of running a business, but you can make a difference at the same time . . . and that’s what this book is all about.

In the next 11 chapters you will learn about both opening a business as well as doing it with a green flair. We’ll compare business names and green business names, hiring quality employees and hiring green-minded quality employees, necessary business equipment and supplies and green business equipment and supplies, marketing and promoting your business and green marketing and promoting. The point is, while it is unlikely that you will be able to start off 100 percent green, we’ll discuss a variety of business areas and include the green versions throughout. In addition, we’ll look at green companies of various sizes from which you can research, explore, and learn.

So, be prepared to be not only an entrepreneur, but a green entrepreneur. It’s not as difficult as you might think.
What Does “Green” Mean?

Green. It’s the color of the trees, grass, plants, many vegetables, and now the term being used to describe those who are taking the environmental concerns of our planet to heart and trying to make a difference. Yes, green is now the buzzword for focusing attention on sustainability and the preservation of the environment. It is a term being used
universally to indicate that you have some understanding of global warming, the greenhouse effect, and how pollution to our land and our water is endangering the planet as we know it . . . along with its inhabitants. Therefore, as Kermit the Frog used to say, “It's good to be green.”

So what can you do, as a soon-to-be entrepreneur? First, you can start your business, any business, as a green business. And that's what this book is about, incorporating the environmental green into your plans and hopes of making the other green . . . money. Of course to do this your first step is to understand that the overall goal isn't just to plant trees, save water, or eat organic foods, but to recognize that Earth's bounties are being used up at a rate that is dangerous for the next generation. While science has found ways to extend life, at the same time we have also jeopardized the environment in which we can survive. Being green, or sustainable, therefore means giving back what is being taken from the earth, replenishing and respecting the planet rather than simply take from it. In a nutshell, that is what it means to be green.

Footprints in Carbon

One of the first things you will want to do once you get your business off and running is to calculate your carbon footprint. This means seeing how much greenhouse gas emission, or CO₂, is the result of your company doing business as usual. By aiming to be carbon neutral, you are essentially saying that you have zero emissions through activities or are offsetting those you do have. A company's carbon imprint can be determined and measured by calculating specific information about emissions from factories, machinery, and vehicles used within the course of doing business.

You'll find several carbon calculators available online at:
- Environmental Protection Agency: epa.gov
- Greenhouse Gas Protocol: ggpprotocol.org
- The Nature Conservancy: nature.org
- Carbonfund: carbonfund.org/site/pages/carbon_calculators

Looking Forward and Looking Back

To start a new business means to be forward thinking. Your goal is to turn a profit and grow in the coming years. With that in mind, this book will not present
the detailed picture of the environmental problems that we face today. Global warming, the greenhouse effect, pollution, the disappearing forests, and other global issues have been greatly reported and highly publicized. Thus, rather than recap all of these issues, this book is designed to allow you to go forward and take the necessary measures to make a difference by running your business in a green manner, while also selling and/or manufacturing green products. Of course, throughout the book, you will see reminders of what has been done in the past, from which we need to learn. As we have progressed as a highly industrialized, highly technical society, we have also endangered the earth around us. Therefore, it is important to remember that the earth was here long before the latest and greatest technological advancements. It has withstood dinosaurs, the Ice Age, countless natural disasters, disco, and a wide variety of technical advancements in every generation. The earth has survived because it was designed to be sustainable. It is the smart entrepreneur, in any business, who recognizes that in the overall scheme of things, his or her technology is no match for the power and possibilities that mother earth has to offer. The simple reality is that you will find ecosystems existing on our earth that, without disruption from humans, can, and have, thrived for millions of years.

To move forward, it is important to step back and recognize the power available from Earth, which continues to spin, turning day into night and changing seasons on a regular schedule—even when your state-of-the-art, top-of-the-line, brand-new computer system goes down.

## Sustainability

One of the most important concepts to understand, and one of the primary definitions of a green business, is striving for sustainability. Sustainability can be defined as a process of maintaining a lifecycle at a certain level indefinitely. The idea being that the lifecycle goes from nature back to nature. In other words, what comes from the earth is utilized in such a way as to replenish itself.

The concern today is that the modern industrialized society is preventing the earth’s ability to function in a sustainable manner, disrupting ecological support systems. For a business to be sustainable, there needs to be a conscientious effort on the part of the owner(s) to set up means of supporting the environmental systems as they pertain to air, water, soil, agriculture, and forests, all of which play a part in the survival of humans and wildlife. While there is no single standardized definition of what makes a sustainable business model, the Evergreen Group, a San Francisco-based green brokerage business helping green business owners sell their businesses to like-minded buyers, provides the following:
A sustainable business is one that operates in an environmentally responsible way. Its products and business processes are such that no negative environmental impact is felt as a result of its existence.

Another way of looking at business from a sustainability perspective is to run your company in such a way that if it shut down tomorrow, or at any time, there would be no negative trace in the environment that it had ever been there, meaning it left no physical mark.

Of course running a 100 percent sustainable business is almost impossible, considering that products and even services take material goods into account and they need to be created, transported and distributed in some manner that usually requires some degree of technology, even if it is rudimentary or minimal. Therefore, you will see businesses with their own degree of sustainability, from old-line companies that are completely unaware of, and not focusing on, sustainability as an issue to companies that will only focus on eco-friendly means of producing, packaging, and selling products. Your hope is to be closer to the latter group, making sustainability a top priority.

For your purposes, you will need to consider:

- Your specific business needs
- Sustainable business practices
- Ways in which you can integrate the two as much as possible

For example, your business will need office equipment and supplies. You want to be sustainable, so you can look at buying recyclable and/or reusable equipment and supplies as well as utilizing them in such a manner that does not waste energy.

One of the problems faced over the last 50 years, as the United States has grown as an industrial giant in the post World War II era, has been that few companies have focused on managing waste and preserving the environment around them in what is now being called an environmentally friendly manner.

Yes, pollution in the skies has long been an issue, and government restrictions were placed on companies, but this was a mere slap on the wrist in comparison to the vast amount of waste that was accumulating in our waterways and in landfill. In fact, it was once a point of boasting that an entire building or even community was built on landfill. Of course few people would want to buy a home on such a toxic area today.

**Smart Tip**

Did you know that recycled paper uses close to half of the energy and as much as 90 percent less water to make paper than virgin timber, or trees cut down for the express purpose of making paper? Unfortunately, still only about 10 percent of paper used in the United States for printing is recycled.
To put it simply, sustainability is now, in large part, a response to the significant errors of the past. And while it will take active measures, such as replanting forests and cleaning out waterways and the surrounding areas to rectify this predicament, the hope of any sustainable business is not to add to the already existing problems caused by global industrialization.

Three keys to keep in mind when focusing on sustainability, are reducing, reusing, and recycling.

1. **Reducing.** As a new business owner, you have nothing you can reduce. The concept, however, is to use less energy and have less impact upon the environment than “traditional” businesses. What you can do, is look at the energy expenditure of businesses similar to yours and the manner in which they use natural resources and then try to limit your usage so that it is below those levels. Additionally, reducing can be as simple as not printing e-mails and thus reducing paper use.

2. **Reusing.** By taking the concept of reusing what is already available, you can minimize new production of materials, thus limiting energy expenditure and waste. Most man-made energy sources as well as many culled from the earth (such as oil), result in emitting carbon dioxide and other toxins in our air and water. This is one of the primary reasons for minimizing energy usage. Minimizing waste is necessary largely because we are simply running out of room. Products that end up in landfill can remain there for literally hundreds, if not thousands, of years, also polluting the environment. Reusing items means extending their lifetime and giving them a valuable purpose rather than serving as landfill.

3. **Recycling.** Like reusing, this is a means of utilizing products for a longer timeframe, only in this case, in a different form. Plastics, paper, and other materials can be recycled and the properties within then can continue to be of use and value. There are numerous recycling centers. It is important for business owners to learn what can and cannot be easily recycled and to set up a means of collecting recyclable items and taking them to, or having them picked up by, a recycling center.

Dollar Stretcher
Numerous items can be reused. For example, if you do not need to use the very latest in software programs, you can reuse a computer that was formerly used by another business owner. Also keep in mind that you can reuse shipping containers and packaging that comes in for your next outgoing shipment. Boxes can also be used for planters and old crates can hold files. Be creative and reuse wherever you can.
The Eco-Lifecycle of a Product

One way to figure out how to minimize waste and to be as environmentally responsible as possible is to trace the cycle of the products you are manufacturing, or selling, from beginning to end. This means evaluating where the materials or chemicals within a product originate, what processes are used to create products, how they are sent or shipped to you, what you do with them to prepare them for sale, how they are packaged for sale, and what happens to them through their use by the consumer. And, finally (very important), what happens to them after they have been used. How are they discarded? Are they recycled so that they can be useful again?

A very basic example could be the process of selling milk. Cows produce milk after giving birth. The milk is then collected by the farmer through a milking machine and transported as raw milk by truck to a processing plant where it is tested for bacteria and then pasteurized at temperatures of 177 degrees Fahrenheit. During this process, butterfat is then skimmed from the milk and then mixed back into the milk at different proportions, differentiating whole, skim, 1%, and 2% milk. Following homogenization, the milk is stored and cooled in tanks. It is then put into bottles or cartons and shipped to stores by refrigerated trucks. Milk is then put into refrigerators in the store, where it is purchased by consumers. After finishing the product, the carton or bottle can then be transported to a recycling plant where it can be used for another purpose.

From this basic concept, you can research each step of the process. For example, you can find out what the farmer feeds the cows; what if any chemicals are used in the pasteurization; where the bottles or cartons come from and how they are manufactured. You can also focus on the shipping of the empty and, later, full cartons and bottles as well as the transport of the milk. Once upon a time, milk was transported by horse and buggy. Today it requires trucks that use fossil fuels (bad for the environment). However, today’s milk can be more thoroughly screened and bacteria can be more easily detected (good for your health). The point is, there is a story behind every product you make or sell and a story that doesn’t end with the sale, but concludes with what happens to the waste materials, which in this case are cartons and bottles. If these are not recycled, or the milk is in a non-recyclable type of plastic container, then the container ends up as landfill.

So what can you do to enhance this lifecycle process?

In the above scenario, you could try several options including:

1. Look for farms and processing plants in an area near your location to minimize transport (and support local growers).
2. Look for packaging such as the bottles and/or cartons that is recyclable.
3. Look for organic farms where there are no pesticides or chemicals used.
4. Make sure consumers know that the bottles and cartons are recyclable.
5. Store milk in refrigerators powered by renewable energy sources, such as solar or wind turbine power.

The point is, with any product that you sell or manufacture you can look for ways in which that product, through its entire lifecycle, can be created, shipped, used, and discarded in an environmentally favorable manner. Learn as much as you can about what is behind the products that you sell, much in the way that Wal-Mart is doing by insisting that their vendors meet certain requirements and that packaging also meets specific criteria.

Finally, starting a business today means you should also be socially responsible. If, for example, you are importing products or parts for production from overseas, find out how the workers are treated and if they are receiving fair wages. Even locally, you’ll want to know the conditions under which workers are growing, creating, packaging, and/or shipping products. Your own workers also need to be treated in a dignified and professional manner and you need to heed all employment laws, such as minimum wage and overtime laws. Social responsibility will be discussed in more detail later.

Clearly, your first objective is to get a business up and running. This may preclude you from exploring each step in the lifecycle process. However, if you want to stay in step with the concerns and issues of your consumer market, you should focus attention to some degree on the lifecycle chain. Do your homework. Environmentally aware consumers and numerous watchdog groups are doing theirs.

**The Green Mindset**

Having the green mindset is a marvelous place to start. If you focus your attention on starting a green business from the beginning, it will accompany you as you work through the various aspects and many tasks involved in launching a business.
There is a tremendous amount of material published in books and magazines, as well as on internet sites such as Treehugger.com and Greenbusinessalliance.com, that can put you in the right mindset based on the reality of what has been, and continues to be, a very troubling global situation. What stops many entrepreneurs from focusing on “green” is the notion that, as a small business owner, there is very little that they can do. But while it is true that you will not make the same impact upon the earth as a multi-billion dollar corporation, your business can make a difference. If you consider that 80 percent of the businesses in the United States are small to midsize their owners can and will make a significant difference if they unite. The key is getting on board from the beginning, if for no one else, for your customers or clients, many of whom are becoming environmentally savvy and want to deal with businesses that believe as they do. Surveys routinely show that more and more people are doing business with companies that have similar beliefs to their own and that environmental and socially responsible companies are reaping greater rewards.

Here are some ideas to help get you motivated:

1. *Find a green competitive edge.* It is always to your benefit to have a competitive edge, something that will help you stand out from your competitors. Look for that edge to be “green.” If, for example, you are a clothing retailer, along with the popular lines your competitors are also carrying, introduce clothing made from organic cottons and other, newer, eco-friendly materials. Make it part of your marketing efforts to point out that you are carrying such items. Whatever you do, look for the greener way of doing business and then let it be known that you are the eco-friendliest in your field.

2. *Hire likeminded people.* Consider bringing in people who share your interests and business ideas, but also share your passion for the environment. Hiring people with such a mindset can help you find ways to launch your business in a greener manner.

3. *Look for underachieving opportunities.* If you have not yet decided on a business, explore businesses that have not been embraced by the green mindset, or at least ones in which there is room for vast improvement. There are areas such as organic foods and cosmetics, where companies like Pangea Organics have built a strong green foundation. It is advantageous to look for industries that have, as a whole, not yet embraced “green” as much as they could. GreeNow, a New York-based company providing generators and other equipment for festivals, concerts, and events, was formed largely because the owners discovered that no other companies were providing biodiesel-powered generators or forklifts. After doing research, they found that not only could this be done and replace petroleum-based equipment, but that there was a major demand for greener ways of running such events.
4. **Learn a lot.** Start educating yourself and getting into the mindset by visiting websites such as envirolink.org, Alliance to Save Energy at ase.org, Energy Savers at energysavers.gov, Energystar.com, Treehuggers.com, Earthwatch.org, Planetgreen.com, or one of numerous other environmental websites. Turn on Planet Green TV and, if you haven’t seen it, rent Al Gore’s film *An Inconvenient Truth*. You will also find inspiration from reading about the green efforts of other businesses such as Timberland, Starbucks, Wal-Mart, or one of many small companies like Clif Bar, The Evergreen Group, or New Belgium Brewery that have a very green outlook. (There are nearly two dozen such green companies featured in the next chapter.)

5. **Get involved.** While starting up a business will take a great deal of your time, you might also opt to get involved in some green organizations and associations. This will allow you to both learn and meet like-minded individuals from which you can cull some ideas, both green and business. Hands-on involvement in environmental activities can be a real eye-opener. A perfect example of how such hands-on activities can lead to greener actions comes from Clif Bar Staff Ecologist Elysa Hammond. “We did a beach cleanup project as a way of getting everyone actively involved. One of the leaders of our R&D department was so affected by picking up all of the plastic and Styrofoam waste that, when he received packages with Styrofoam peanuts, he wrote back to the companies politely explaining why he would appreciate it if they would send future packaging without this plastic or Styrofoam. He explained how it affects wildlife. The result was far less plastic sent in packaging. The point being that such a project can enlighten members of your own staff and they can spread the word about their new-found knowledge through hands-on experience. After all, we typically learn a lot more when in the throes of an activity, rather than just reading about it.

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**What Does a Green Office Look Like?**

Desk-side recycling bins, energy-efficient lighting rather than fluorescent lighting, and plants used as natural air filters are part of the green office environment. The idea should be to minimize waste, keep energy bills low, utilize energy-efficient equipment, and enjoy both fresh air and clean air within the office.

No matter what business you are in, you can start off with some fundamentals in place, such as a waste management plan, sustainability plan, and green purchasing
policy so that buying recycled products whenever possible is the norm. Starting a green business means establishing eco-friendly policies from the beginning. If you have an office that reflects your environmental concerns then you will be more inclined to operate in a green manner in all of your business dealings.

**Have You Ever Stepped Into a Green Store?**

Environmentally-friendly products on the shelves, packaged in recyclable containers, reusable cloth bags on sale for a nominal fee or perhaps for free at the checkout counters, and less inventory but more options available on computers and kiosks are all part of what the environmental model of how a green retail store looks today.

Many retailers see the benefits of medium to smaller locations that require less heat in the winter and air conditioning pumping cooler air in the summer. They also see the benefits of encouraging consumers to bring their own cloth bags in which to carry goods home on a regular basis rather than the “paper or plastic” option.

Organic products, earth-friendly options, and an environment that clearly shows customers that “we care about the planet” will help you launch a green retail business.

**Have You Been to a Green Factory Lately?**

Chemical free, toxin free, high indoor air quality, safety precautions in place, good natural ventilation, and products utilizing recycled and/or natural materials with either little waste or a means of utilizing remnants from production are all part of the greener manufacturing model.

No matter what you plan to make, you can very likely find ingredients and materials that are organic, natural, nontoxic, and/or recyclable. The eco-lifecycle of the products are studied carefully to determine the best means of making, selling, and shipping products without leaving a significant carbon imprint on the earth.
The Green Homebased Businesses . . . Have You Seen One?

Open windows minimize the need for air conditioning, furnishings are innovative in their use of recycled materials, and the lighting is natural from a skylight—the home office can be your personal green presentation of your business featuring eco-friendly surroundings and energy-efficient equipment. You can make the most out of that which you, or friends and neighbors, have lying around and think organic from décor to daily snacks.

While this is just a taste of the manner in which you can operate your business, it is the setting in which you can create, sell, and market your products and/or services.

Balancing Pragmatic Business Concerns with an Environmental Approach

Sustainability, waste management, energy conservation, using natural resources, recycling, thinking organic, and so on. There are plenty of ways to approach being green. On the other side of the equation, you have meeting consumer demand, hiring top people, watching your costs, marketing to find new customers while keeping current ones happy, maintaining a cash flow, keeping shareholders and stakeholders content, and making a profit. These are all part and parcel of the business side of the equation.

No matter how green you want your business to be, if you are losing money, your business will not be around very long. And, if you have a true passion for helping the environment, you owe it to yourself, and the planet, to try to maintain your business as a profitable entity.

So, how do you balance the two areas, business and green?

You might liken the response to the old two step, where you take two-steps forward and one step back. This means moving ahead with your business plan in a manner that is profitable and meets your needs, while taking a step back to make sure you are incorporating green measures each step of the way . . . if possible. You will need to punch numbers and determine the cost of tradition versus greener methods of running your business. In some cases you will find that you will not be spending anything more to be green, and in fact will be saving money by recycling and reusing products.
In other areas, the cost of starting out green may be prohibitive. Keep in mind, however, that if you can get rebates and government support for building green or using renewable energy that this might also lead to a cost savings. It is important, as mentioned earlier, to know your business very well. This will allow you to make the tough decisions, such as where you may need to spend a little more now to save more money later.

Remember, you are also better starting off at 25 or 50 percent green, than not launching a profitable business. While you have an obligation to the environment, you also have an obligation to yourself, your backers, and your stakeholders to get the business off the ground and making money. You can take small steps—to paraphrase a popular saying—a journey to 100 percent carbon neutrality starts with one step in that direction. Small steps can be the beginning of much greater success. Profits can also be a means of supporting environmental causes, such as giving to One Percent for the Planet, which utilizes one percent of the profits donated from numerous businesses—large or small—to help environmental organizations worldwide, or the Conservation Alliance, which supports environmental organizations in their efforts to protect threatened wild lands.

And, if you can’t afford to power all of, or most of, your facility by solar energy, you can buy carbon offsets as a means of contributing to the environment. While this is not the same as “doing your own thing” it is a way of “hopefully” making a difference. To do this, you calculate your carbon footprint, as noted earlier, and you buy offsets to reduce an equal amount of carbon somewhere else in the world through your donation. Theoretically, you want to be balancing your carbon-producing activities by lowering a carbon footprint somewhere else, or doing something beneficial elsewhere. It’s almost as if you missed a day of work (seven hours) at a green company, but compensated by using one of your off-days (like a Sunday) to do something good for the environment for seven hours somewhere else. Hence the principle of carbon offsets is that rather than doing something yourself, you are donating money for someone else to do the environmental work for you.

While carbon offsets are easy to purchase, you should do some research to learn how and where your money is being spent. Here are a few places to visit online to get an idea of how they use the funding from selling their carbon offsets:

- Atmosclear: atmosclear.org
- The Carbonfund: Carbonfund.org
- e-Blue Horizons: e-bluehorizons.net
- Eco2Pass: eco2pass.com
- Greenoffice: greenoffice.com
- Native Energy: nativeenergy.org
- Natsource: natsource.com
More than $100 million dollars in carbon offsets were purchased voluntarily in both 2007 and 2008. There are some countries that require businesses to buy offsets once they have reached a certain level of carbon emissions. Thus far that is not the case in the United States.

The hope is that by buying carbon offsets, your company can approach carbon neutrality. One carbon offset represents the reduction of one metric ton of carbon dioxide, or its equivalent in other greenhouse gases, such as methane.

Carbon offsets, however, should be your last option. That’s right, your last option. This should not be a means of buying your way out of actually being a green company. Nor should they be bought simply to ease your conscience.

Just as supplements, diet pills, or medicines are no substitute for eating a nutritious diet and health-conscious menu choices, carbon offsets do not substitute for green practices and an eco-friendly environment. A green-business owner should be thinking of sustainable practices, recycling, reusing, saving energy, and being involved in hands-on initiatives that benefit the planet first, before looking to purchase carbon offsets.

On the positive side, carbon offsets do put money toward thousands of projects designed to reduce carbon emissions, re-plant forests, save endangered wildlife, clean up land and water, and so forth.

On the negative side, there is not much regulation of carbon offsets and no central board overseeing them. As a result, in many cases it is difficult to know if the money is being used to benefit the environment and what measures are taken in the long term to make sure that such projects will be sustained. For example, trees planted to rejuvenate a forest is a positive use of the carbon offsets. However, if there is nobody overseeing the ongoing growth of these trees, which can take many years, and they are subsequently chopped down to make paper, you are defeating the purpose of your initial plan, to re-establish the forests.

The other concern critics raise regarding carbon offsets is whether you are paying to have work done that would have been done regardless, in which case the funding is not going to anything new. “Are there additional results?” asks Anne Bedarf, Project Manager at GreenBlue.org, a Virginia-based nonprofit institute that focuses on the expertise of professional communities to create practical solutions, resources, and opportunities for implementing sustainability. In other words, is something being done that would not have been done anyway?

For more on carbon offsets, you can go to ecobusinesslinks.com and find information and prices for various carbon offsetting sellers, plus the type of offsets sold and the type of projects your money is going to support. Another website, called Cleanair-coolplanet.org also has information on the various carbon offsets that you can purchase. Again, keep in mind that while carbon offsets may very well be a step in
the right direction, even if 50 percent of the funding is used to benefit the environment, buying offsets does not make a company green and should be used to balance the amount of carbon emissions that you, as a practical business owner, need to expend to maintain a successful business.
Starting a business means making many key decisions. First, you will need to decide on the type of business you wish to open and then on the amount of time and effort you are ready to put into a business venture. Of course, this will vary depending on your specific goals, needs, and desires. For
some, the dream is to plant the seeds for a multi-billion dollar corporation while for others it is a part-time business for additional income.

Before you can start a green business, you need to be passionate about the type of business you are planning to embark upon. You need to see this as a business with the potential to make money while benefiting the environment in some manner. If you are able to launch a green business properly, whether it is a full-time or part-time venture, you want to do so in such a way that is both sustainable (eco-friendly) and profitable!

While we are not going to get into great detail on how to select among the myriad business possibilities, we will take some time to ask the pertinent questions to help you establish some clear goals. You want to have both a sense of direction from a financial perspective and one that meets your environmental concerns in keeping with your personal beliefs.

What Are Your Personal Goals?

Starting a business has a lot to do with your personality and what you want to achieve in life. Many entrepreneurs start businesses because their goals are to work for themselves, earn a steady income to support, or help support, their families, and have the flexibility to make their own decisions and work their own hours.

Personal goals are those that affect you as an individual. They are about your dreams, desires, and ideals. For example, you may start a specific business because you enjoy being outdoors rather than cooped up in an office or because you enjoy working with your hands or want to become more physically active and fit. Many business owners today are starting businesses with the personal goal of doing something positive for the environment. Your personal goals should be based on:

- What you enjoy doing
- Where your experience/expertise lie
- What you believe in
- What provides you with a sense of personal (not financial) satisfaction
- What fits into your current lifestyle, which includes your family or life situation (For example: Are you single? Part of a two-income household? Do you have children? Are you retired from a long-time career?)

One of the nicest things about listing your personal goals before going into a business is that they cannot be wrong. They could be unrealistic, such as making enough money to save an entire rain forest, or you could be planning a business that is too small to meet the needs of your family, but they are still your dreams and aspirations, some of which may simply need to be scaled down or expanded upon for the sake of practicality.
Below you can list your personal goals, which will serve you well in deciding on a business venture or, if you have a business venture already in mind, help you plan accordingly to work toward your goals.

You will want to define both your short- and long-term personal goals, prior to starting any business. Use the worksheet below to help you recognize those goals. These may include being your own boss as well as making personally rewarding changes in your lifestyle over the years to come. While it’s impossible to know what your future will hold, you can look at upcoming changes and personal life events and plan accordingly.

### Defining Your Personal Goals Worksheet

In order of priority, list your short-term (1–5 years) personal goals:

1. 
2. 
3. 
4. 
5. 

In order of priority, list your long-term (5+ years) personal goals:

1. 
2. 
3. 
4. 
5.
What Are Your Financial Goals?

A rewarding business takes on two elements: providing personal satisfaction and financial freedom. After all, if you want to be tied to someone else’s personal goals or be under-compensated for your efforts, you could always work for someone else.

Therefore, your second set of goals to consider—as you embark on any type of business—are your financial goals. Are you anticipating a business that will earn you a profit of $50,000 or $250,000? Are you starting a business for a supplemental income or for your primary income? Sure, everyone starts a business with the goal of making money, but in conjunction with the above-mentioned personal goals (which put you in a business you would enjoy running) you will need to factor in a realistic amount of money with which to support yourself and/or a family. As mentioned in personal goals, the amount of income you will need will depend on your life situation. Are you the sole supporter of a family? Do you have only yourself to feed and clothe? Are you part of a two-income family (which is very common today)? Are you maintaining a “traditional” job and launching a homebased business for some extra income? Answers to these questions will determine what income level will be a realistic goal.

In addition, there are milestones and long-term goals you will need to consider when starting a business such as stashing away enough money to put the kids through college, paying off the mortgage, buying a vacation home, and amassing enough wealth on which to retire comfortably by age 55. You will want to look at and list your financial goals including putting money toward your personal beliefs in the environment and social responsibility, which today go hand-in-hand. Use the financial goals worksheet.

What Are Your Business Goals?

Business goals center on the size, type, and structure of the business you want to start. For example, are you looking to open a health spa with 24 employees or would you prefer a three-person, very hands-on, landscaping business? Are you going to be a service provider from a homebased office, or open a tutoring service with classrooms and fifteen tutors working with students in a well-situated location? The size and type of business you open will be based largely on your resources, including how much money and manpower you have to start your business, along with your experience in the field and your ability to be a leader. Too many people want to run a large business but do not have the leadership qualities to do so. Conversely, many two-person operations could grow if the owners wanted such expansion, but they remain small because the goal was just that, a small self-contained business. Your personal and financial goals, along with your resources will play into your business goals.
Therefore, once you have decided upon the type of business you wish to open, think about where you see that business in five or ten years. In other words, will your car wash be the first of three in your local area within five years and a franchise covering the entire Northeastern region of the country in ten years? Or, will you have a small car wash that simply adds other amenities and services in five years and becomes fully automated as technology advances in ten years?

The manner in which you see the business taking shape, growing, expanding, or not, is all part of your business goals. You can also determine whether you see yourself taking on 1 or 21 employees, adding new technology, and/or selling the business by the ten-year anniversary. Use the worksheet on page 20 to help you understand your business goals.

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**Defining Your Financial Goals Worksheet**

In order of priority, list your short-term (1–5 years) financial goals:

1. 

2.

3.

4.

5.

In order of priority, list your long-term (5+ years) financial goals:

1.

2.

3.

4.

5.
What Are Your Environmental Goals?

If you are reading a book on starting a green business, you are clearly motivated to make a positive impact on the environment. Therefore, in conjunction with your personal, financial, and business goals, you need to include your environmental goals; these will also factor in with the other three categories.

You may want to run a business with as close to a zero carbon footprint as possible, meaning you are producing a minimal amount of carbon monoxide emissions and buying carbon offsets to cover that which you do produce. Your goals may be to make a difference in the local landscape, cleaning up a neighborhood beach or park. You
may want a business whereby everyone uses alternative transportation to commute to and from your office or store. You may want to educate other businesses by setting an eco-friendly example in everything you do or even providing tours of your facility to illustrate your procedures, much as New Belgium Brewery in Colorado did, inviting business leaders, to tour the greenest brewery in America . . . even the head of Wal-Mart stopped by for a lengthy visit. The point is that you can have several environmental goals. You should list them for the near and far future using the worksheet below. Perhaps by five years you will be a fully sustainable business and by ten years operate on 100 percent renewable energy. You may also want to start with initiatives that include both your employees and your community.

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### Defining Your Environmental Goals Worksheet

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How to Choose the Right Business

A green business is one of your primary goals. However, to get there, you need to determine what type of business you want to pursue. The three broad categories of businesses are those that:

1. Sell products
2. Sell services
3. Manufacture products

Of course there are plenty of businesses that do all three, or two out of three. For example, you may be a manufacturer of eco-friendly kitchen cabinets made with FSC (Forest Stewardship Council) certified woods, sell them at your showroom, and also do installation and repairs on such cabinets, providing the manufacturing, sales, and service aspects. You will need a level of expertise in each area to make such a business work. After all, if you can make the cabinets, but are terrible at sales, your business will be in trouble. You could always decide to have other dealerships and kitchen stores do the selling for you. The point is, assess what you can do well and go from there.

Let’s look at the three key ingredients: sales, manufacturing, and service.

Are You Inclined to Sell?

While you need not be an outgoing “in your face” salesperson, to go into selling, whether it is retail sales in a store, via the internet, through catalogs, at trade shows, or by appointment only (wholesale or retail) you do need to have some expertise in one or more types of products and be able to discern the means of buying, marking up, and selling. At the most basic level, selling means meeting a demand with a supply. This is not always easy, and may take marketing, promotion, advertising, and convincing people that they need what you have to sell. People in sales work long and hard to analyze their product(s) and those of their competitors, so being an expert in that which you are selling certainly helps.

Anyone opening a sales-oriented business needs to learn how to make a product seem most appealing and marketable (or hire salespeople who have that knack). There are many books and articles written about what it takes to excel at sales. Confidence in your product(s), good listening skills so that you hear what your customers want, and the ability to solve their needs are three key ingredients along with knowing how to close a sale and when “no” means “no.”

Green products today are those that save energy, prevent unnecessary waste, are recyclable, reusable, nontoxic, organic, and/or otherwise not harmful to the planet.
These qualifications are major selling points unto themselves. Doing market research, you will find that a growing percentage of your potential buying market is concerned with the environment, which bodes well for selling environmentally safe versions of almost any product. And with few exceptions, you can find eco-friendly adaptations of almost anything.

If you are thinking of a sales-oriented green business, ask yourself:

- Am I a people person?
- Am I good with numbers (for inventory, pricing, and determining a profit margin)?
- Do I have a knack for accentuating the positives of products or services?
- Am I a good listener?
- Am I comfortable selling, or should I find people who are?
- Do I have an interest in (and some expertise in) a particular product or industry (such as sporting goods, women’s apparel, or medical supplies)?
- Can I seek out and find the green versions of products that I want to sell?
- Can I sell greener products than my competition?

Can You Provide a Service?

From consultants to decorators to dentists to landscape architects, if there is a skill you possess, and/or a license or degree you hold verifying your ability in an area of expertise, you can open a service-based business. The key elements to a service business are:

- Knowing your capabilities
- Knowing what services people want and what they expect
- Scheduling your time and pricing yourself accordingly.

Even if you do not personally have such a skill, you could run a service-oriented business by hiring those individuals who do possess the abilities that are wanted and/or needed by a target market. From tutoring to escorts to auto detailers to party planners to photographers, you can send the people who provide services to clients while you serve as the organizer, scheduler, and business owner.

A green service business takes into consideration the tools of the trade, the location in which a service is performed and the necessary commuting. In some instances you may be able to minimize your impact on the planet through the service being performed. For example, a good green architect or landscaper today can have various strategies for building a greener home or planting and maintaining a thriving garden.
If you are thinking of a service-oriented green business, ask yourself:

- Am I a people person?
- Am I good with organization and scheduling?
- Do I have a marketable service/skill that I can perform?
- Do I have credibility (through certifications, licensing, etc.)?
- Can I find and/or manage others with service experience?
- Can I market this service to a defined target audience?
- Can this service help create a greener environment or can it be performed in a green manner?

**Into Manufacturing?**

The third type of business is manufacturing, which can include making anything from children’s toys to rocket ships. While some products are made to fill a void in a market, many entrepreneurs open manufacturing facilities because they have ideas and plans to make a better product or a familiar product in a different manner than those already widely available. An entrepreneur in the business of manufacturing any type of product needs to be well versed in the details of the product his or her company will be producing and the public’s need for the product.

Manufacturing greener products means that you will study and include environmentally friendly materials and create, grow, or assemble them in an eco-friendly manner. In addition, you will use manufacturing processes that do not result in waste and/or pollution of the air or water. And finally, shipping and transport needs should be considered in a green manufacturing business.

If you are thinking of a manufacturing business, ask yourself:

- Is there a product or line of products that I feel strongly about making?
- Do I have expertise in creating and/or manufacturing a product?
- Do I have innovative ideas that I can train people to produce?
• Do I have confidence (from market research) that this is a product the public will want, need, and buy?
• Am I good with numbers to determine the cost for making products and the profit margin for selling them?
• Can I find greener ways of making “traditional” products?
• Can I find greener means of packaging and shipping products?
• Can I provide greener alternatives by making a recyclable or reusable product?

Another potential business not mentioned here would be farming and agriculture. In a broad sense, these are essentially manufacturing products by way of growing them, as is the case with food or plants.

Sales and marketing skills also need to be addressed in order to move what you grow. Organically grown produce is clearly another green option, depending on your interest in, passion for, and knowledge of agriculture.

Suit Yourself

The key is to find a business that suits your passions, personality, strengths, experience, goals, beliefs, and ideals. When you stop to think about how much time you will be putting into a business, you really want to get something back for all of that effort, besides the obvious, money.

Clearly, there is much more to consider when embarking on a new business. According to noted professor, consultant, and ecologist Karel J. Samsom, PhD, from his paper “The 4 E’s: Entrepreneurship, Economy, Ecology, and the Ego!”:

Entrepreneurs need not be weighted down by the cultural or monetary habits of “the business culture as usual.” Solo entrepreneurs and new ventures offer unique capabilities to create value. This is especially true in an age where economic activity increasingly exceeds the physical limitations of what the ecology of the Earth can support or absorb. When the physical impact of economic activity continuously exceeds the ability of the ecology of the Earth to absorb and recover, an impossible situation arises which leads to either borrowing resources from following generations and/or polluting the current inhabitants of the Earth. Thus, one of the key success drivers for green businesses is to understand this connection between economy and ecology and consciously use the practical implications thereof in designing all marketing tools.

Along with the marketing tools that Dr. Samsom mentions, designing and creating a business that, at all levels, taps into green innovations and processes can serve as
a model for other businesses while providing an entrepreneur with rewards far greater than those that are monetary.

**There’s No Need to Re-Invent the Wheel: A Look at 22 Successful Green Businesses**

Sure, you’ve read about Starbucks, Wal-Mart, and Timberland all making great strides to go greener. Many established businesses are working hard to move in the eco-friendly direction with excellent results. However, there are also numerous small businesses that started with an environmental, “green,” mindset; they can serve as role models for entrepreneurs such as yourself, who are just launching their businesses.

Below are 22 of the many examples of businesses that have embraced the green philosophy from the start. They range from some small businesses that have grown substantially to brand new two-person operations. Their revenues and profit margins vary greatly, as do their products and services, which range from organic pet foods to pizza. They do, however, share a common goal: to benefit the planet and the health of those inhabiting it.

You can use these as examples from which to cull ideas of practical applications when designing and starting your own company, or you can simply read about them to reaffirm your belief that a business with an environmental, sustainable mission is not only possible but can be highly successful. So I present the following list of 22 green business examples (in no particular order).

1. Pangea Organics  
   pangeaorganics.com

Pangea was designed from the outset to be a sustainable company and now sports a zero carbon footprint. Along with creating and selling original organic skincare products, their packaging is made from a zero waste process featuring 100 percent post-consumer paper and organic seeds such as sweet basil and amaranth. This allows the consumer to return the box to the environment by removing the label, soaking it in water for a minute and planting it back into the earth. Speaking of the earth, Pangea Organics also supports women-owned farms. According to founder and president Joshua Onysko, “87 percent of the world’s food is grown by women and they own 1 percent of the world’s land, so we are hoping to finance women-owned farms in countries that produce some of our raw materials. We’re hoping by 2012 that 20 percent
of our ingredients will be produced by women-owned farms that we supported and helped to grow.”

2. Patagonia
patagonia.com

Since the 1970s this outdoor clothing and gear manufacturer has been a leader in sustainability. Patagonia was one of the first companies to use organic cotton and recycled plastic fleece. They have continued to introduce innovative environmentally friendly materials over their long history. Along with recycling old clothing, using only recycled paper in their marketing and catalogs, and powering buildings with renewable energy, Patagonia also leads environmental and conservation efforts.

They have given more than $31 million dollars to numerous organizations active in protecting the environment, wilderness, and promoting biodiversity. In addition, Patagonia co-founded The Conservation Alliance in 1989. The alliance unites like-minded companies in the outdoors industry in order to support environmental efforts and to protect endangered wildlife and land.

3. New Belgium Brewery
newbelgium.com

Husband and wife Jeff Lebish and Kim Jordan hiked up into the mountains to sit quietly and determine how to take their home brewing and create a full working brewery that would be good to the environment. Apparently, they came up with an excellent plan. The Colorado-based company became the first beer maker to power all of its operations with wind turbine power. The company also opted to fuel all of their trucks with biodiesel and treat wastewater on site, resulting in a dramatic reduction in water usage. In addition, New Belgium manages several acres of land and provides other companies with waste products that are used for other purposes such as fish food. Strong supporters of alternative, eco-friendly means of commuting, New Belgium gives each employee a bicycle after one year of work. They also support and sponsor a number of biking events and even have bike-in movies, using the old drive-in concept of showing an outdoor movie, but they take place on the lawn for people showing up by bike.

4. Clif Bar & Company
clifbar.com

This Berkeley, California-based business is one of the most notable eco-friendly companies on the planet. Clif Bar makes a variety of healthy organic snack bars using
5. Green Mountain Coffee Roasters
greenmountaincoffee.com

Based in the mountains of Vermont, Green Mountain Coffee Roasters opened in 1981 and went public on the NASDAQ in 1993. During that time, and ever since, they have been committed to creating and selling more than 100 high-quality coffee selections while maintaining their model of sustainability, which placed them on SustainableBusiness.com’s 2007 list of The World’s Top 20 Sustainable Business Stocks.

The core values of Green Mountain have long been to protect the environment and to focus on waste reduction and responsible energy use. From composting in the early days to establishing an employee Environment Committee in 1989, there have been many activities and initiatives launched to better the planet. Earth-friendly coffee filters were soon followed by the first biodegradable coffee bag for bulk purchases in the 1990s. More recently, in 2006, the company introduced the ecotainer™, the world’s first to-go cup for hot beverages made entirely out of renewable materials.

Green Mountain is constantly at the forefront of innovation when it comes to eco-friendly products. In addition, they have worked with Root Capital to provide millions of dollars in loans to cash-strapped coffee farmers.

6. Kettle Foods
kettlefoods.com

Featuring award-winning all-natural chips with no trans fats and no MSG, this Oregon-based food maker has grown into a leading eco-friendly company. Along with making chips using sunflower and safflower oils, Kettle runs a fleet of vehicles primarily organic products. In addition, they use recycled paper and nontoxic inks on their packaging, which is all eco-friendly. By moving their distribution centers and switching to sustainable biodiesel in their trucks, Clif Bar & Company have lowered their carbon footprint by minimizing inter-company shipping from bakeries to distribution centers. In fact, they went from using 508 tons of CO2 in 2003 to 15 tons in 2007. Along with their products, packaging, and shipping, Clif Bar is very active in a vast number of environmental activities and with numerous well-known charitable groups and organizations. Their monthly newsletter highlights many hands-on campaigns, fundraisers, and activities that staff members have been involved in, along with the community. A well-rounded pragmatic and socially conscious business, Clif Bar lists five aspirations to which they adhere: Sustaining Our Planet, Sustaining Our Community, Sustaining Our People, Sustaining Our Business, and Sustaining Our Brands.
powered by distilled vegetable oil. In fact, 100 percent of the waste vegetable oil from the chips is converted into biodiesel fuel.

A leader in renewable energy, Kettle has 600 solar panels set on roof-mounted racks, which generate enough power to make 250,000 bags of chips and reduce the company’s annual CO₂ emissions by 65 tons. In addition, Kettle, which has been recognized by the Environmental Protection Agency’s Green Power Partnership, has purchased enough wind energy credits to thwart more than 12 million pounds of carbon dioxide pollution.

Kettle also sports wind turbines on their roof and brings in nearly 40 percent of their building materials from within a 500-mile radius of a projected building, thus mitigating the CO₂ emissions of numerous trucks.

7. Seventh Generation
seventhgeneration.com

Starting as a small Vermont-based green company, Seventh Generation has, in 20 years, established itself as a leader in the green cleaning industry. Committed from day one to a passion for saving natural resources and reducing pollution, Seventh Generation created a line of nontoxic household products that includes non-chlorine bleached, 100 percent recycled paper towels, bathroom and facial tissues, and napkins; nontoxic, phosphate-free cleaning, dish and laundry products; plastic trash bags made from recycled plastic; chlorine-free baby diapers, training pants, and baby wipes; and chlorine-free feminine care products, including organic cotton tampons.

Seventh Generation also partnered with a number of organizations including Balle (aka The Business Alliance for Local Living Economies), Grassroots.org, and Healthy Child Healthy World, which is dedicated to protecting children from harmful environmental exposures.

8. Pizza Fusion
pizzafusion.com

Yes, pizza places can be green too. Pizza Fusion, originally based in Fort Lauderdale, Florida, specializes in organic pizzas and has expanded to more than 50 locations in seven states. The two originators, college buddies Michael Gordon and Vaughan Lazar, were determined to start a business that featured great-tasting pizza while at the same time being beneficial to the planet. With that in mind, they opted to buy a fleet of hybrid vehicles to bring pizzas in recyclable boxes to customer’s homes, using minimal CO₂ emissions. They also knew that happy employees would benefit their mission, so for any employee working over a 20-hour week, they offered
a health plan. Finally, once the concept was a hit, they decided to start franchising, but only in stores that met LEED (Leadership in Energy and Environmental Design) standards and were powered with 100 percent wind energy. Any additional power is offset by the purchase of renewable wind energy credits. All of this is in keeping with their motto, “Saving the Earth, One Pizza at a Time.”

9. The Evergreen Group LLC and Green Key Real Estate
greenkeyrealestate.com

Housed in one San Francisco carbon neutral office, complete with Energy Star appliances and plenty of recycled paper, are two businesses owned by the same entrepreneur. For the past seven years, the Evergreen Group has been selling small green businesses to likeminded buyers. Green Key Real Estate, just three years old, has recently begun franchising with a green business model. They handle primarily residential property and small-scale mixed use properties. “As we get bigger we will be building relationships with developers who are doing green projects and at that point set up sales offices and really work on larger projects,” explains founder and CEO Chris Bartle.

While there is no one definition of “green” real estate, Bartle explains that Green Key looks for certification, such as FSC-certified building materials and homes rated by Green Point, which is part of the California Program, Building Green.

The green real estate business is also about homes in which sellers have included green features and/or homes where buyers are looking to add green features. Bartle points to three main categories for green real estate. “Energy efficiency, indoor air quality [which means using nontoxic materials and finishes], and water conservation are all taken into account,” says Bartle, who runs the first green real estate franchise of its kind.

10. Solar Wind Works
solarwindworks.com

A full-service renewable energy business, the Truckee, California-based company handles all aspects of wind turbine power. Owner Chris Worchester serves as an example of what can be done, living off-grid for the past 20 years. The epitome of green expertise, Solar Wind Works guide their clients through the process from conception to installation. They also know their products, which include wind energy products, solar PV products, solar hot water products, DC to AC power inverters, charge controllers, renewable energy system batteries, hybrid power systems, generators, and
more. “For solar energy, we utilize solar maps of the United States, which illustrate areas of lower and higher sun ratings,” explains Roger Strong, a renewable-energy consultant for Solar Wind Works. They have a similar means of measuring wind power for wind turbines.

Sporting numerous certifications, Solar Wind Works is a green business dedicated to helping local businesses and home owners experience a greener way of life.

11. WeWe Clothing
weweclothing.com

As you might imagine, this is clothing primarily for little tikes, and some for older kids (plus a few things for grown ups too!) made primarily from organic materials. The homebased business in Beverly Hills, California, was started by clothing designer Folake Kyue, who wanted out of the nine-to-five routine and into a manageable business, where her husband helped by setting up the website. The business is almost entirely paperless and the husband-and-wife team work hard to recycle, save energy, and use means of alternative transportation for errands and any business needs, which includes not only bikes, but the occasional skateboard. The website also has eco-recommendations such as saving water and energy by washing clothes by hand.

12. Newman’s Own Organics
newmansownorganics.com

Nell Newman, the daughter of Paul Newman and Joanne Woodward, started her organic food business back in 1993, when even the mention of organic foods raised eyebrows. “People back east, where I grew up, thought I was nuts,” says Nell, who launched her organic food business under the Newman food umbrella. In fact, it was dad’s food business that was the catalyst for Newman’s Own Organics. “Dad’s favorite snack was pretzels when I was growing up, so we thought we would start with that as our first product,” explains Nell, who found a small pretzel manufacturing plant that was willing to bring in flour in bags and create the organic version of pretzels. From that initial offering, some 15 years later the company has grown to include chocolate bars, Fig Newmans, Pop’s Corn, Champion chip cookies, Soy Crisps, mints, caramel butter cups, their own delicious peanut butter cups, coffee, tea, and more. There’s even a line of organic pet foods. The success of Newman’s Own Organics is based largely on the commitment to selling organic foods that rival any traditional offerings in taste while being much healthier. Newman, who took the time to research and study the way in which food is grown and marketed adds that, “If people only knew what went into traditional foods, everyone would be buying organic.”
13. Odorzout
odorzout.com or 88stink.com

Unlike Superman, who fears Kryptonite, Dr. Stink absolutely loves Zeolites, in fact, it’s the mineral behind his success. No, we’re not talking about a comic book hero, but the man behind Odorzout, which features all natural products that eliminate odors. Some 15 years ago, Barry Reifman (aka Dr. Stink) learned of Zeolites from a geologist friend and he was launched into a green business before “green” was in fashion. Today, Odorzout not only has a host of natural products that take the odor out of everything from cat litter to laundry, but it is the all-natural odor eliminating product that has been given the EPA’s “Designed for the Environment” seal of approval. In addition, Odorzout also sports the National Health & Wellness Club’s seal of approval on their Laundry Additive. The all-natural odor eliminator does not mask, cover up, or perfume, but instead absorbs and eliminates odors. Dressed in his green lab coat, Dr. Stink tells potential customers more about the amazing green products at commercial and trade shows. In addition, the packaging and even the labels are all recyclable. Products are now carried by some major players including PetSmart, Tru Value Hardware, Ace Hardware Arizona, and Whole Food Arizona.

14. Inu Treats
inutreats.com

Dan and Tina Garrido got the idea for starting a business that sells all natural holistic treats for the modern pet when they learned that one of their own two dogs had allergies. “After all of the pet food recalls in 2007, we wanted to make something that was healthy for animals and made from natural ingredients,” says Dan of their initial concept, which began with four products in fun shapes. Using natural and some organic ingredients, the husband-and-wife team did their test marketing at street fairs in the Seattle area and altered the ingredients depending on the reaction they were getting from pet owners, and ultimately the pets themselves. Pretty soon, a couple of stores wanted to buy and distribute the product. After one year, 200 stores are now part of the Inu distribution channels, which has also expanded into Canada and Asia.

Now in an 8,000-square-foot factory, the pet treat business is thriving in a green environment. “We try to use all recycled products and we use soy ink on business cards. Our packaging also has a paragraph on the company’s commitment to being earth friendly,” adds Dan, who also works with a green marketing company to spread the word about healthy pet snacks from Inu Treats.
15. GreeNow

greenow.org

Some businesses emerge because they meet a demand. That’s the case with GreeNow, making events of all kinds, including festivals, concerts, and corporate outings greener by powering them with biodiesel rather than petroleum. Aaron Levinthal, who has his own production company and has been in the event business for 15 years, was asked frequently by planners how they could make their events greener, beyond using recyclable cups and plates. “I thought about it and realized that power was probably the biggest abuser of the environment, between forklifts and generators used at such events,” explains Levinthal, who proceeded to ask the companies that rent generators if they could use biodiesel. “I got a resounding ‘no’ across the board,” says Levinthal, who decided to take matters into his own hands. Buying a generator and making some minor adjustments, Levinthal found that generators not only could run with biodiesel, but that biodiesel cleaned them out and helped keep them in better shape.

From there, Levinthal teamed with partner Chris Wangro and launched GreeNow. Today GreeNow provides generators, forklifts, site lights, and gators all 99-percent powered by biodiesel fuel. They also power their trucks on biodiesel fuel.

Based in lower Manhattan, with a Bronx warehouse, GreeNow has provided green power for the Pope’s visit to New York City, as well as the River Festival, Clearwater Music festival, and other events, including those for corporations. They have even provided generators for film shoots and are now working with LEED-certified green builders to use biodiesel at construction sites.

16. Chokola’j®

chokolajchocolate.com

From his days as a chef at four star restaurants and world famous resorts to his new entrepreneurial effort, Chokola’j®, Daniel Kennedy always followed his dreams and passions—the Long Island-based home to fine artisan chocolates is no exception. While Daniel creates amazing chocolates in 36 flavors and his wife Susan manages the business end of the company, they are both dedicated to doing their part to help the planet and give back to their community. “We buy ingredients from local farms and farm stands,” explains Dan who is a firm believer in natural products, sustainability, and supporting local businesses. “Food is about flavor and making choices based on what is available and what will provide the least impact on the environment while having the best taste,” he adds.
Buying cocoa butter from the Rainforest Alliance and using recyclable packaging in everything from the boxes to the paper wrappers, Chokola$^\text{®}$ is truly a scrumptiously green business.

**17. Selfish Box**

selfishbox.com

What do corporate executives at Microsoft and T-Mobile do for lunch? Well now they have an option of healthy gourmet lunches in recyclable bags from Selfish Box, named as such because it’s “too good to share.” The idea for the lunch catering business came from Thanh Hua, who started the business with her brother-in-law in 2006. “I was looking for something new and so was my brother-in-law, who was a chef,” explains Hua. “When I saw how much packaging goes into box lunches, I thought there has to be a better, greener, way,” adds Hua, who also focused on the fact that such large companies such as Microsoft and T-Mobile were right nearby in Redmond, Washington.

Today, Selfish Box offers a wide range of gourmet lunches with a variety of ethnic flavors. Packaging is 100 percent biodegradable in bags that are also designed to fit wraps or sandwiches without being wasteful.

Additionally, Hua used her background in technology to create a paperless office with Microsoft tools. Using Microsoft Office, she was able to devise systems of Excel, Word, and other features of the popular office program to do everything from tracking orders to sending invoices via e-mail and even using mobile devices to gauge prices when shopping.

**18. Sum-Bo-Shine**

sumboshine.com

“Everything starts with a passion, a vision, or a desire, which is basically what I had,” says Carolyn Deal, who, following 10 years as a nurse and more than 20 years in the health care field, opened her own organic baby care product business. Passionate about sustainability, healthcare, and children, it was the perfect idea for a grandmother who wanted to launch a business. Working with an FDA-registered lab to formulate and create the actual products, Carolyn built up a line of nine products including baby lotion, diaper ointment, shampoo, and bodywash all made with natural ingredients. Within a year of starting her green business, named for her three children, Summer, Rainbow, and Sunshine (and no, she’s not from Southern California) the business has already garnered awards for green products and been written up in *Mothering, Wellness*, and other magazines.
Sum-Bo-Shine is not only about healthy, natural products for babies, and new moms, but is also very much aware of packaging. The company not only sells products in recyclable packages, but has a website that allows you to request an envelope in which you can return the empty plastic bottles and they will recycle them for you. Now that’s a passion and commitment to the earth all rolled up into one successful new business.

19. Electric Body
electricbody.com

One of several green-minded husband-and-wife teams to launch a business, the Hiestands, Shelly and Denie, came to Los Angeles from New Zealand with an interest in health and body. Together, they formed Electric Body, an all-natural skin care business featuring Electric Body Skin Elixir, an all-in-one face and eye cream, as well as an anti-wrinkle, anti-aging, skin repair treatment.

In the health field for years, Denie became impassioned about not only what people are eating and drinking, but about what they are putting on their skin. “So many people buy recyclable products and organic foods, but are not aware of what they’re putting on their skin,” says Shelly. “A lot of chemicals are linked to skin cancer, so we’ve developed a skin care product that we are launching that can take the place of so much of the wasteful, and potentially harmful products that people buy,” she adds.

This two-person business was featured in the gift areas at both the Oscar’s and the Emmys. In addition, Electric Body already has a popular blog and a large database.

20. Montana Stones
montanastones.com

Why not use some natural resources to start a business? That’s exactly what a husband-and-wife team in eastern Montana decided to do. In 2007, Jan and Dean McCabe (no, they are not the Jan & Dean that sung “Surf City”) had an idea to use native stones to create cabinet knobs, door knobs, robe knobs, wine bottle stoppers, and other household accessories. Mounted on wood reclaimed from a Montana barn or from a pine forest fire, and simply attached to a brass pedestal, the stones, each unique to itself, provide a touch of nature to your home.

Using all green power, the McCabes have launched their business from their home. Along with their own website, the business is also included on green websites such as ecomall.com and greenpeople.org. The husband-and-wife team are also busily networking with architects, designers, home builders, and others to promote and build their all natural, very unique, business.
21. iTySE
ityse.biz

The answer to the paper or plastic question, according to long time friends Shawna Pierson and Chris Kodama, is a resounding “neither!” Together Pierson and Kodama decided that they would take on a new business venture tapping directly into the green culture by creating iTyse, makers of stylish, eco-friendly, reusable bags for shopping.

“This is a response to the environmental issues with the plastic and paper bags,” explains Shawna, adding that people can make the change and bringing their own bags when they go shopping, especially if they are stylish.

The bags, in various colors, are designed to hold plenty of groceries or whatever you are using them for, with each Rib-Stop Nylon bag including four mesh bags within, all manufactured locally. A work program in a local Idaho prison provides inmates with paying jobs and iTySE with employees.

Most significantly, iTySE is at the emergence of what will likely become the new age of reusable bags for shopping. “Seattle has already imposed a $.20 per bag charge and other cities including Portland, Los Angeles, and New York are looking into it. In fact, China has a ban on plastic bags altogether,” adds Chris.

In response to doubts from their husbands, Shawna and Chris called the company iTySE, which stands for I Told You So Enterprises.

22. Wild Dill
wilddill.com

Proving once again the power of the internet, Jennifer Doob, a one-person operation, is vying against much larger competitors through her own online business using a well-crafted, professionally designed website that can challenge her larger counterparts.

Selling organic, fair trade, sweatshop-free, natural, and/or recycled clothing and toys for little tykes, Wild Dill lets you be kind to your baby and our planet all at the same time.

The business was launched in February of 2008 from the Bay area. The idea came from a young mom who did not want to go back to work (even though she was working for an environmental nonprofit) and preferred the idea of running a business while spending some quality time at home with her young son Dillon, whom she labeled a bit wild . . . hence the name Wild Dill. “I also wanted a name that had something to do with nature in it, so I looked through some nature books and found dill. Since that was also my son’s name it fit perfectly,” explains Jennifer.

Scouring boutiques, the internet, and other locations for the most organic products she could find, Jennifer now offers organically made clothing, sleepwear, and play
items from more than 40 designers. Many of the manufacturers are locally based, which saves on shipping. Additionally, packaging is recyclable and cornstarch peanuts are used instead of the Styrofoam ones.

Each of these 22 businesses has been built with an environmental mindset, and yet the types of businesses differ from brewing beer to selling real estate to selling solar energy to making and selling organic snack foods. The point is that your own particular take on what makes your business green will depend on what you do and how you do it. Visiting the websites of these businesses can give you some ideas that you can hopefully incorporate into your plans for a green business.
Give the people what they want. This is one of the credos you will hear often in business. It makes sense because if you are asking customers to fork over their hard-earned money, they should be buying a product or service that they desire. Therefore, your first question upon starting any type of business is: What do Customers Want? In this case, you
are looking for two answers. First, what they want from your product or service and second, what do they want from an environmental perspective, if in fact they know. You need to consider that customers sometimes, but not always, know what they want from a product or service. In the rapidly growing world of green awareness and innovation, there are constantly new discoveries. Remarkably, people in a wide range of industries have taken the time and effort to discover, create, uncover, and/or re-invent natural means of producing any number of items. In keeping up with your industry, you may very likely know what environmentally-minded consumers want before they do.

What Do Customers Want?

It’s a simple question, yet one that has baffled business owners for years. Customers, whether groups, business owners, or individuals, have a wide range of wants and needs that are often hard to bring together under one collective roof. To make matters worse, they are easily swayed by trends, friends, fads, the media, and in many cases the economy or even the government. The multitude of possibilities makes satisfying an expansive customer base a very time-consuming and expensive undertaking, one that most small-business owners cannot afford to tackle. Even Amazon, a giant among e-tailers featuring everything from clothing to household items, started as just an online bookseller. You, too, will likely want to start small as did nearly all of our 22 featured businesses at the end of Chapter 2.

From an environmental perspective customers, by and large, resemble dieters in many ways. They want to be green, or lean, but they still have little willpower when it comes to certain indulgences. They continue to drive to work and leave the air conditioning on all day in the office, while still recycling and supporting environmental causes and concerns. Much like having that salad followed by that must-have piece of cheesecake, it’s simply human nature. Customers (most of us, actually) commit to making an effort as long as we are not sacrificing too much of what makes us feel good. Is this wrong? Are we not entitled to our pleasures? You can debate this on your own time. However, from a business perspective, you’ll want to find a middle ground that embraces both practicality and the joys of life along with responsibility to the environment. In short, yes, you can indulge a little, just don’t throw the packaging material into a landfill, recycle it!

The popular online office supply site, The Green Office.com (thegreenoffice.com), sells green appliances, furnishings, and office supplies along with products that are not at all green. Why you may ask? As founder and CEO Alex Szabo explains, “We want people to be able to do their one-stop office shopping with us so they can find
everything they want including the greenest products, light green products, and conventional alternatives.”

As Szabo sees it, at least this way they will include some green products while waiting for other product areas to catch up. By letting it be known that customers are looking for greener products in certain areas, companies like Szabo’s can also influence manufacturers in the non-green areas to seek out greener alternatives.

While surveys routinely show that customers would opt for green alternatives in many areas, there are still some product areas that have not yet become satisfactory to the green buying market. Once upon a time many health food stores suffered because buyers just did not like the alternatives sold as “healthier” versions of traditional fare. Today, however, food makers have come a long way and organic and “health” foods are much better received than they were a decade ago. Customers are still discerning, but while they are looking for quality, they are also looking for eco-friendly products and packaging. Little by little industries are embracing green, as it pertains to both sustainability and practicality.

The other factor that needs to be considered is that fewer than 20 percent of the consumer population is particularly immersed in “green.” This group—the dark green environmentalists—are knowledgeable about the environment and work sustainability into their lifestyles whenever possible. The problem, however, is that the other 80-plus percent of the population are not really part of a “green” demographic. They can, and typically do, learn about green products and services, based on what they need and what affects them personally, rather than learning about environmentalism in broader terms.

“Most people won’t proceed head first into things such as sustainability and the environment. Instead, they have one or two things that pertain to them that they will want to find more information about,” explains David Anderson, founder and publisher of Greenoptions.com. The website was originally launched as a site focusing on the environment from a broad perspective but in the fall of 2007 switched to a format featuring several sites with blogs and information on various eco-topics, such as a green building site, transportation/bio fuel site, a family site, and so on. “The reason we broke it into topics on separate sites is because green options and green portals are popping up all over the place and people tend to get overwhelmed. This way someone could look at the cars site and find information of interest to them, while also learning about green options,” explains Anderson, adding that the Eco-Child’s Play site is one of the most popular. “One major driver that makes people start thinking about going green is if they have a baby. They want to start thinking about bringing nontoxic items into their home, like cleaning supplies. They start focusing on parenting issues as it applies to them and then start learning about green alternatives. Then you can start to expose them to things like organic foods or energy efficiency in their homes and so on,” adds Anderson, further explaining the idea of finding a common denominator with potential customers.
As is the case with most businesses, people will have initial interest because what you are offering pertains to their specific needs. So, as Anderson and others recommend, meet them at their point of interest and then introduce some green into their world.

## Exploring Your Target Market

Nothing will appeal to “everyone,” so you will need to zero in on your target audience. In other words, who will buy your products or services? The concept for targeting customers with a green product is not particularly different than targeting any other customers. You need, first and foremost, to have a quality product or service that solves their problem and meets their needs. You also need to do plenty of research, both primary and secondary, to create a portrait of who it is that will be buying your product or services. Questions regarding your target market help you identify:

- Gender
- Age range
- Marital status
- Highest level of education completed
- Annual household income range
- Approximate annual amount of money spent in your industry
- Possibly, how much more they will spend for a greener version of that product

Again, remember that not everyone is knowledgeable about green benefits, so you may need to build slowly, meeting various needs, in some cases, with traditional products. While you can certainly build green awareness with new products and strategies, it is often advantageous to include a range of possibilities, some of which may not yet be green. This is what Greenoffice.com has done successfully.

While you can approach your potential customers by the more traditional means of determining what it is they are looking for in a product and service, and then introduce green options, you can also see if your audience does have some green interests or concerns. For example, you might create a questionnaire that inquires as to which of the following are the most important environmental concerns to them personally. This will typically tie into their personal life situation.
• Renewable energy
• Transportation and fuel
• Indoor air quality and home environment
• Organic foods and healthy eating
• Planting, gardening, and/or agriculture

These are just some examples. Respondents can be asked to check off one or more areas that they feel most strongly about. Your goal is to find out where you can best make a dent since it’s very difficult (and potentially time consuming) to try appeasing everyone at once.

Within any, or several of the sectors listed above, you can actively work to establish your business model by creating innovative technologies and making and/or selling products on which your business can grow and thrive. You can also work to promote the transformation to new methodology as an alternative to using conventional sectors. For example, if you are finding that many of your target audience are concerned about high energy costs, then you can promote renewable energy sources rather than conventional energy sources, much as the California-based company Solar Wind Works does (mentioned in the previous chapter).

You will also find a completely separate market of individuals not yet oriented to environmental causes and concerns, and this is a large group, which is hard to define. Therefore, you need to first define a target group within your industry, such as consumers for sportswear in the 16- to 25-year-old age range. Then you can start thinking about how much of this market is eco-savvy.

Doing market research can take some time and typically cost you a few dollars. In the end, however, knowing who your market is, for any type of product or service, is essential to your success. Your best means of researching the market is a combination of reviewing data from reliable sources, which might include:

• Websites
• The local planning board
• Government sources including the census numbers

### Dollar Stretcher

While in the throes of setting up a business, it can be hard to spend a great deal of time doing research. This is where research assistants come in handy. What better place to find cost-effective assistants than at local colleges and even high schools. If you can meet with the heads of the internship program and show them your business plan and impress upon them that you are starting up a new green business, you may be able to utilize the ability of enthusiastic, eco-minded interns to help you do the research to find your target audience.
Focus Groups

Focus groups are a great way to find out what your potential future customers are thinking. Contrary to popular belief, focus groups are rather inexpensive to run. A good focus group features a facilitator who is likeable (but not pushy or aggressive) and well-versed in running such a group. This means that he or she knows how to keep everyone included in the discussion and steer the proceedings in such a manner that they stay on the topic.

In addition, a good focus group should also:

- Have a rough budget.
- Be held in a quiet, comfortable, well-lit, easily accessible location for everyone involved (reserve the site in advance).
- Have a clear and defined purpose. Gathering general opinions is not as effective as finding out what people think about specific areas of interest, products, services, your promotional or advertising campaign, etc.
- Consist of a defined group of people. This way you are getting answers from the segment of the population you want to reach. (Contact people with a couple of weeks notice if possible.)
- Consist of a manageable size, such as 12 to 25 people. Larger groups can be more difficult from a management and size perspective.
- Follow a roughly scripted outline so that all areas of significance are covered in the allotted time.
- Run less than two hours and include a break of about 20 minutes.
- Include at least snacks, or beverages, if not a full lunch (depending on your budget).
- Provide all necessary materials (gather all of this—and run copies if necessary—in advance)
- Have a means of recording the session and using such information for post-focus-group follow up and analysis.
- Include thanking participants and even providing a small reward or incentive for having taken part. Be careful that this is small enough not to attract
unwanted people simply for the reward, but large enough to make people feel that they can spare two hours of their time (plus travel time). This could be, for example, $50 per participant.

Naturally, your focus group can include green topics, but unless you are going to market only to a “darker” green audience, keep it open to all levels of green—even those who have not yet discovered green. The key is to zero in on what you want to know from the participants regarding their needs and your products and introduce green examples in conjunction with your business. In some instances, you will find a market already prepared and waiting. Don’t forget, in any niche group you will find people who are well-versed on the types of products and/or services your business offers. In some cases they already want greener versions of traditional products, while in other cases, you will be forging new ground. Again, determine in advance what types of questions you want to ask and then look for answers that can benefit your business. Also, try to gauge the knowledge and interest in the environment of the specific group. Some businesses will cater to a green-ready group, while many businesses will have to introduce greener alternatives.

The biggest flaws in focus groups are:

- Not assembling the right group of people.
- Not asking the right questions. This results in not obtaining the information that you want/need for your business.
- Having a moderator that does not bring out the best in people. Moderators can be self involved or simply not likeable, both of which can kill the enthusiasm.
- Not using the research obtained for your benefit. Why have a focus group if you aren’t going to benefit from it?

The bottom line is that focus groups can be very helpful, but the preliminary and follow-up work is just as, if not more, important than the actual time spent in the focus group itself.

**Utilizing Your Research**

From your research, you can usually find four groups of potential customers. There are those that are:

1. ready to buy now.
2. ready to buy under certain conditions.
3. need convincing to buy.
4. not interested at all.
Using your research, you can figure out how to get that first group of immediate buyers into your business today. You then need to know what conditions will draw the second group and have a campaign to educate and lure the third group. Group four is not usually worth your time and marketing expenses, at least not until you have built up enough business from the other three groups.

Fortunately today, a lot of eco-friendly products and services are crossing over to the mainstream market. Even without knowing it, consumers are buying more organic hair care and cleaning products. There are many more recyclable products hitting the mainstream shelves and, from a service perspective, providers are often thinking in greener terms regarding how they do business, particularly as builders, architects, designers, and landscapers. Businesses are also creating greener environments in which consumers shop even without necessarily being aware of the eco-factors involved. For example, Wal-Mart’s drive to buy from greener suppliers isn’t always obvious to the consumer, yet it is part of their effort to benefit the environment.

**Niche Markets**

Within nearly every industry you will find niche markets. Under the “green” umbrella, you may or may not find yours. RideSpring, for example, has zeroed in on the alternative transportation/green commuting market by establishing company websites accessible by members of a given office to help arrange carpools. The site also encourages all forms of alternative transportation by providing incentive prizes for steady green commuters. The point is that the business is focused on a market within the green community . . . alternative, energy-saving commuting.

Essentially, there are two types of green business models.

First, there are those with specific green solutions such as RideSpring, Solar Wind Works, or a company selling hybrid vehicles or organic foods. They are operating a business that sells green products or services.

The other type is a more mainstream business, like Wal-Mart or Starbucks, that utilizes green methodology, processes, and practices in running the business but does not rely on drawing a specific green-oriented market. While some of the products and services will be green, that is not the emphasis of the business. These businesses draw from a larger target audience. Of course, the choice will be yours based on how big a business you are starting as well as your industry, products (or services), and location.

Typically, the way in which a business reaches out to its target audience is by finding a means of connecting with the buying market. For example, if you are selling baby care products, find out the best ways and means of reaching out to, and appealing to, new parents in your area, especially new moms, and let them know more about
what you offer. First draw them in based on their needs as parents and their possible environmental concerns. As David Anderson mentioned earlier, “People tend to start thinking greener when it affects them personally.” Therefore, someone car hunting will be more interested in hybrid vehicles than someone who is neither in the market for a car nor a car enthusiast. If, for example, your new business is in the building industry, your clients will come to you with their needs, some of which may be green and others only green enough to meet federal and local standards. First you want to appeal to them as builders who can complete the job in a professional manner, within their budgetary constraints (if possible) then you want to respond to their green needs or introduce them to some greener building alternatives. Hint: If you can save your clients money in the long run, it will be of particular interest.

In short, you can certainly build a green niche within your broader market. In some areas, such as organic products, you can venture more easily into a niche than in others, since many of the products have gone mainstream. “You can look at anything through a green lens,” says David Anderson. The question is how green? You want to build a target audience from a larger population, or the 80+ percent who have not yet become dark green or are not yet as environmentally informed, while having some appeal to that 15 to 20 percent who are already there.

### Scouting the Competition

Any good entrepreneur will want to, or actually need to, know what the competition is up to. This means finding out exactly what competing businesses in your industry are doing. Direct competition are those businesses in your immediate area, while indirect competition may come from other businesses that happen to sell some of the products, or offer some of the services, that you offer. For example, a new car-wash owner will scout competitors in a reasonable geographic area as his or her direct competition. Filling stations that also wash cars might be considered indirect competition.

So, what is it you want to know about your competitors? Here are a few things to consider:

- What are their prices?
• Where does their pricing fit within the industry? Bargain? High end? Somewhere in between?
• What kind of special deals (or sales) do they offer?
• What type of promotion and marketing do they do?
• What type of customers do they attract? Students? Yuppies? Forty somethings? Seniors?
• How up to date are they? Making or selling the latest models? Selling yesterday’s models?
• What type of customer service do they provide?
• How attentive are they to customer questions and concerns? (Play the role of an inquiring customer and find out.)
• What do you feel are their strong points?
• Where could they be doing a better job?
• Are they green? Are they greenwashing? Somewhere in between?

The more you study what your competition is and is not doing, the more carefully you can craft your business to offer customers some alternatives. If you can provide options that they are not providing—whether it means additional product choices, a larger menu of services, better customer service, or greater attention to customers needs—the more likely you will set yourself apart from your competitors.

Another avenue of competition that you will need to explore is the internet. Almost every business has a presence on the internet, even if you are not selling or marketing your products or services directly through a site. Therefore, you’ll want to see what sites your competitors have and be at least as clever in establishing your web presence. If you are in sales, you should look at websites that are your indirect competition and then offer customers something they cannot get by making a purchase online, which is typically personalized attention and the opportunity to see, feel, try on, or check out a product firsthand.

If, however, your business is primarily an online business, or you anticipate a good percentage of your business coming from online customers, then you need to scour the competitive websites very carefully. Your site needs to be easier to navigate, offer more content, provide more accessibility to products and/or services, or simply have a better layout. The key is to find a way to keep customers coming back to your site by giving them incentives, content to read, interactive options, and so forth—more on building a good website later.

In short, market research dictates that you determine how many competitors you are up against, what they offer, and what they charge customers. The two big questions you need to answer honestly are:
1. Will there be a large enough slice of the pie for your business in your geographic area, on the internet (if you are an e-tailer), or in the overall industry?

2. Can you find a competitive edge?

Scouting the competition is the only way to determine whether you have a realistic chance of gaining a market share.

Many business owners with a real desire to make a difference are able to pass that passion on to customers, and that is a strong selling point. However, as more green-minded entrepreneurs plant their seeds as business owners, you will need to do more from a business perspective, which may mean better customer service or greener customer service. Do what your competitors are not yet doing. If they are still offering paper or plastic, then you should be offering canvas reusable bags, not just as a competitive edge, but because it’s better for the environment. Again, leading with your beliefs can pay off.

Of course scouting the competition before you open is only half the battle. You need to stay abreast of what your competitors are doing on a regular basis. Keep an eye on their product lines, services offered, expansion, pricing policies, and green activities. You want to continue to draw new customers while maintaining your current ones.

The 80–20 Rule

Remember that in most businesses 80 percent of your business will come from regular customers while 20 percent will come from new business. Too many business owners spend an inordinate amount of time chasing new business, while neglecting to maintain their steady customers. Since it typically costs significantly more money to chase new customers than maintain regular ones, this is not at all cost effective.

Being on the edge of everything that is green can benefit you in that you’re connecting with your customers on something that is important to both you as a business owner and them as new parents, new car buyers, new home buyers, or wherever their interests lie . . . and have a green side to them.

We’ll talk more about the objectives of maintaining steady customers while also going after new ones later in the book. Of course to start out, you have no choice but to seek out new customers. By doing your marketing research, knowing about your target audience, and being ready with solutions to their problems, you can help build a customer base of people who will become your regulars and stay with you for a long time.
Common Market Research Errors

Finally, when planning and proceeding through the course of your market research, it’s a good idea to review some of the mistakes commonly made by others so you’ll know what not to do.

Consider the following errors:

1. Taking too broad an approach. Before embarking on your research, you need to set up some objectives. You know your product(s) and should have an idea of your potential customers. Therefore, you should not be seeking any type of customer, but focusing on a specific target audience, or niche. Too often, in an attempt to find customers, any customers, business owners go out marketing without knowing what they are looking for and end up with useless data.

2. Utilizing too many junk responses. You need to have some control over where your surveys or questionnaires go and who answers them. Likewise, you need the right people at your focus group. If nothing else, you need to weed out junk responses, or those filled out by people who are not at all in your potential buying audience or by people (often kids) just having fun or looking for an incentive, such as winning a prize. Find out the best way to reach the right group of people rather than just getting “any” responses. Junk responses can be misleading and ultimately useless.

3. Making it too difficult for responders. If the questions are complicated or the survey takes too long to answer, you’ll limit yourself. Many business owners, in an effort to get too much information, ask too much, expect too much, and delve into people’s personal data, losing the respondents. Make your market research simple and to the point.

4. Not utilizing the data properly or at all. Good data follow up means taking your market research data and breaking it down into groups and categories that can help you target your best customers. Determine what statistics will best serve your purpose and pull them from your research. Too often, business owners pull only the numbers they are looking for and do not get a realistic picture from their market research efforts. Either that, or they do nothing with the responses, which makes the efforts a complete waste of time.

Keep these common mistakes in mind. Do the necessary planning before and the data review and statistical summaries after you conduct your market research for the best results.
Naming a business is a fun, yet thought-provoking process. You want a name that defines what your business does, while being easy to say and quite memorable all at the same time. If you intend to make a green statement in all that you do, you may want to work the environmental angle into your name. Eco-minded companies such as Clif Bar or New
Belgium Brewery did not incorporate green into their names but into all that they do, and it did not work against them by any means. However, other businesses have gone with the green angle, using “organic,” “eco,” “environment,” or the word “green” in their names. Kelly LaPlante Organic Interior Designs offers the name of the designer, giving it a personal touch, the word “organic” providing the green touch, and “designs,” so you know what the business is all about.

Then these are other green businesses such as Earth Friendly Goods, which sells a wide range of environmentally-friendly products made from hemp, bamboo, organic cottons, etc. Green Apple Kitchen, which is a more niche-oriented business featuring earth-friendly kitchen tools and accessories. While looking at “green” business names, you’ll also find:

- Natural4Less
- Green Spirit Store
- EcoSource
- My Green Home
- Enviroshop
- Ecobooks
- Eco Gift Wrap
- Parenting by Nature
- Atlantis Natural
- Mother Earth Nursery Design
- EcoBaby
- Greenfeet
- Organics 4 Your Pets
- Our Happy Hound’s Organic Biscuit Bakery
- Natural High Lifestyle
- Earth Speaks Organic
- Wearable Vegetables
- EcoUnique
- Natural Tree Furniture
- BaliBamboo Creations
- EcoDesignz
- Sustainable Paper Supplies
- The Green Office
- GoGreen Labels
- It’s Only Natural Gifts
These are just a few of the numerous green, environmental business names. Of course some are more defining than others: It’s Only Natural Gifts, Natural Tree Furniture, or the Green Office let you know that they are green and what they sell; some, such as Greenfeet, would have you believe they might sell footwear, which isn’t the case.

You will want to provide potential customers with a feel for your business, while being green is a plus. However, don’t limit yourself with a word that may box you in. For example, if you are Mickey’s Recyclable Lamps, you may also want to sell other types of recycled furniture, or furniture made from environmentally friendly materials. Therefore you might opt for Mickey’s Eco-Lamps and Furniture. As you can see from the list above, you can make it simple, sell green, and also let people know the types of products you offer.

When thinking about your business name, also consider your domain name since nearly every business today has a web presence. You will want to look up names and register a domain name with a company. More on this momentarily.

### Making Your Business Name Official

Whether you are doing business locally or internationally, you still need to be a registered business somewhere—the IRS likes to know where to find you. For this reason you will need to register your business locally. Make sure you do a business name search before registering. You do this for three reasons:

1. It ensures that no one else in your local area is using the name and gives you dibs on it, so to speak.
2. It makes your local authorities happy. Most cities or counties require that you have a fictitious business name or dba (doing business as). This way, they can keep tabs on you for tax or other licensing purposes, and you go on public record so anyone who wants or needs to can look up the name of your company and find the name of the owner.
3. Most banks won’t allow you to open a business checking account—one with your company name, which gives you credibility among suppliers and others—unless you can show them proof that you have registered a fictitious business name.

Obtaining a dba is quick and easy, and you can absolutely do it on your own. The process varies a bit in different states and regions of the country, but the local licensing bureau will fill you in on what you need—call them to get the details, or go to their website, before making the trip to the licensing bureau.
For your website, make sure the domain name you want is available. It should be as similar to your business name as possible and end in .com, or perhaps .net. Don’t let anyone sell you on other suffixes. Despite the fact that it can sometimes be difficult to get the .com name you want, .com still rules the business world.

Of course you will need to do a domain name search prior to registering a domain name. One way to do this is by going to networksolutions.com and checking to see if your name choices are available. Following the easy directions, check to see if the domain name you’ve chosen has already been taken. If it has, choose another. When you find a permutation that is available, register it online.

Of course when thinking of a name, it not only has to look and sound right, but also it needs to be easy to spell and remember. Use the Business Naming Worksheet on the next page. Also, for the sake of typing in a web address, don’t make it too long. Nobody wants to type Janandfredsgoodoldfashionedorganicicecream.com. Perhaps, Jan and Fred could opt for organicicecream.com or if that’s taken J&Forganicicecream.com. Play with the possibilities but keep it simple enough so that bad typists—and that’s most of us—don’t have to re-enter it five or six times. Along with paying for a domain name, you can also register a name, or even a logo or slogan (if no one else uses it) as a trademark—which takes some time. You can find out information and do a trademark search through the U.S. Trademark and Patent Office at uspto.gov. You can also hire an attorney or a trademark search firm to handle the job for you (for a fee, of course).

### Business Structures

Green business or otherwise, you will need to determine your business structure. Most commonly, small businesses are sole proprietorships, which are, by all accounts, the easiest structures under which to run a business. You get a business license and file the necessary business forms applicable within your state and voila!, you are in business. There is very little paperwork and few formalities, other than paying taxes. Your income is reported on your personal or jointly filed tax return. The drawback, however, is that if your business gets sued, so do you—personally. In other words, you are held liable and it can put a serious dent in your personal finances. In a litigious society, you may feel more comfortable taking greater precautions.

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**Smart Tip**

Since so many domains are already being used, you should think up several versions of the name you want in case one or more have already been taken. Businesses will often buy the closest misspellings to their own name, or similar variations.
### Business Naming Worksheet

List five environmental words you might want to use in your name

1. 
2. 
3. 
4. 
5. 

List five words or groups of two or three words that sum up what your business does

1. 
2. 
3. 
4. 
5. 

List five combinations of the above words

1. 
2. 
3. 
4. 
5.
Incorporating is another option for entrepreneurs. When you’re incorporated, the corporation carries the liability instead of you personally. You can also use such incorporation more effectively when negotiating with banks. Even though the bank will probably still ask you for a personal guarantee, you can use your corporate status during such negotiations.

The biggest plus for incorporating is that the business stands as a separate entity—meaning that you are typically not personally held liable if your product or service injures someone or you are sued for some other business-related reason. However, with incorporation comes a lot of paperwork and various requirements that you must fulfill as set forth by the state in which you incorporate. One drawback of incorporating may mean double taxation. In this case, you pay taxes as a corporation and then again on the money that you personally take out as your salary. Your business attorney and accountant will advise you on how to handle such matters.

Another, somewhat newer, possibility is forming a Limited Liability Corporation (LLC), which is something of a hybrid between incorporating and going solo. The advantages of forming an LLC are that the owner, or owners, are afforded limited liability and have pass-through taxes similar to a partnership. By forming an LLC, rather than a corporation, you receive nearly all of the benefits of a corporation but avoid
some of the drawbacks, such as double taxation, some requirements, and excessive paperwork. Again, discuss this with a business attorney and/or your accountant to determine if this would work for you.

Partnerships can be trickier than one would imagine. There are many areas that need to be addressed when forming a partnership and they should all be spelled out in a detailed partnership agreement. You will also need to determine in advance whether one of you is a silent partner or a limited partner. Discuss ahead of time what each partner’s responsibilities are and only go into a partnership with someone you truly believe you can get along with on a day-to-day basis. Even then, many well-meaning partners have ended up with major disagreements, ending friendships and straining family relationships.

### Zoning Regulations

Zoning regulations are established to separate business and residential areas (or zones) from one another. This is primarily to limit commercial traffic as well as parking and garbage pick up from quieter residential neighborhoods. It is also used to separate various types of businesses based on their needs. For example, businesses that require more room for parking or have a greater flow of traffic may be in an area that is separated from smaller mom and pop shops. There are various other reasons for zoning laws and some such laws divide up different types of businesses. For example, some areas are reserved for non-chain stores, while others may not have drive-thrus. In some cases, a certain type of business, such as a rowdy bar, may not be allowed to open within x blocks from a school. Your main objective, however, is to determine the zoning laws in the area(s) that you wish to open a business.

From a green perspective, you may need to know if an area is zoned for setting up wind turbines or if you can grow your own foods. Whatever your goals, you will also need to find out if they fit into the zoning ordinances of the area in which you’d like to set up shop. If you plan to operate a business from your home, you also need to look at the zoning regulations. Signage is a major factor that often comes into play for home business owners. Find out what you can and cannot do ahead of time.
Finding a Green Location

Not only can you start a green business, you can find a green location in which to set up shop. This may be a green office building, green office park, or even a strip mall. Factors that make a location green include:

- The building materials used in the structure. Are they environmentally friendly?
- Indoor materials. Are these also eco-friendly, such as nontoxic, non-lead paints, bamboo, natural-fiber carpets, etc.?
- The type of energy used in the building. Is it renewable?
- The type of equipment in the building. Is it Energy Star and eco-friendly?
- The grounds on which the building sits. Are there green areas or is everything asphalt? Was it built over a landfill?
- The use of water. Is rainwater collected and used? Is water reused where possible? Are chemicals kept out of the water?
- Is the building maintained in an environmentally friendly manner?
- Is there waste management and recycling?

World’s Greenest Building

While there will certainly be some debate, there are many people in the Maryland, Delaware, Virginia area who consider The Phillip Merrill Environmental Center owned by the Chesapeake Bay Foundation to be the world’s “greenest” building.

The building is made entirely of either recycled materials or materials that were created in such a manner not to be detrimental to the environment. For clean, fresh air, there is a controllable ventilation system along with a rainwater system designed to capture the water so it can be used for cleaning. Within the building, you’ll find natural lighting in many areas and environmental interior flooring made from cork, bamboo, and what is called “natural linoleum.” While there are a number of buildings in other towns and cities now being built with similar green qualities, this is one of the most prestigious eco-buildings in full operation today.
• The HVAC system. How old is it? Is it routinely maintained? Are there separate zone control thermostats?
• Is the building up to date on asbestos removal, lead paint exposure, and have all unsafe materials been removed?

Many newly constructed buildings, and most of those being restored, refurbished, or renovated are becoming greener, not just because of the need to meet environmental standards, but in order to attract eco-minded tenants such as yourself. In fact, the United States Green Building Council (USGBC) rates, and gives awards to, the greenest buildings they can find, some of which may have space for your business. The USGBC Certification program, known as Leadership in Energy and Environmental Design, or LEED, was first established in 2000, and has since awarded certification to 715 buildings throughout the United States. With contractors and architects becoming more conscious of the demand for greener surroundings, there will certainly be more eco-friendly buildings on the way. However, since there are no single standards, you will need to make the judgment regarding whether the office, store, factory space, or other location meets the needs of your business and is an eco-friendly environment.

The other question to ask when leasing space is what changes you can and cannot make to the facility. This will vary greatly depending on the landlord or ownership group. Can you bring in a more energy efficient HVAC system? Can you install a skylight so you won’t need to work that HVAC system to such a great extent?

Of course, buying a property will give you far more latitude when it comes to greening it. On the other hand, before you buy, as a business owner you’ll want to look closely at the real estate market. Ask yourself:

• What are the trends in real estate in the region in which I am looking to open a business?
• What is the potential for growth in terms of the surrounding area?
• Are there reasons to think the area is on an economic upswing? Downswing?
• Can you expand on the property, literally?

While leasing means you can pick up and move if your business is struggling because of the location, buying makes it that much tougher. Of course it will depend on the type of business and your goals and needs. No, you won’t be able to grow a major corporation with 300 employees from a small rented facility, but you may not be planning or looking for that size business.

For some businesses, such as stores and many service businesses location is a major factor; others, such as e-business or those that depend on shipping their products elsewhere, can be run from virtually anywhere (no pun intended).
Know Your Business Needs

For a retail store, you need a high-traffic location, parking, easy access to main roads, room for shipping and storage. You need to distance yourself from too much competition and be able to turn a profit on top of what is often a high-rent proposition.

Requirements for a factory or manufacturing business will differ depending on the type of product. Some products are made in a home environment while others need significant space. Location is important only as it pertains to being accessible for transport, shipping, resources, and the necessary space in and around the facility.

Service businesses typically need smaller spaces and may do fine without a prime location from a visibility standpoint, but still must be easily accessible if clients, students, or customers are coming to you.

Office-based businesses often have more choices with buildings and office parks available. Here, too, it will depend on your type of business as to whether you will need a primary location. If clients, distributors, or vendors will be coming by for frequent visits then you may want a more accessible area. If, however, you are running a web business or mail order business, your office can be on the outskirts of town, as long as it’s accessible to you.

Accessibility is something you will want to consider carefully when starting a green business. “Nobody whom we work with is more than three miles away,” says Folake Kuye, founder and owner of WeWe Clothing, the homebased business in Beverly Hills, California, that sells mostly organic clothing for young children. They use a variety of people to cut, sew, and create the clothes that Kuye designs, all of whom are right nearby. “I bike to places I need to go, or even use my skateboard,” she adds. The same is true for another California business, Kelly LaPlante Organic Design, Inc., where most people bike or walk to the office.

Companies today are looking more closely at their shipping and transportation needs when deciding upon a location. Clif Bar went so far as to relocate their Southern California distribution sites to be closer to their sales locations. They also shifted to fuel efficient vehicles and biodiesel.

Ask yourself:

- Can employees, vendors, and distributors get to and from my primary location(s) in environmentally friendly manners if they so choose?
- Do customers need to make a special trip by car to our location or are we near mass transit, accessible by bike, or in an area in which they can cover most of their shopping needs?
- Do we have nearby sources for products and goods? For example, if you are in the business of selling food (as either a store of a restaurant) can you get fresh produce locally?
• Are you near a recycling center? There are many to be found. See if you have some in your area.

Building Green from the Ground Up

If you can afford to buy the land and build, then you can make an effort to lay a green foundation, so to speak. Buildings of all sizes are being constructed today that utilize environmental architecture in part of, or throughout, a facility. Most green building today is achieved through an integrated process that begins during the pre-design phase. New structures are typically seen as whole buildings from the start, since the systems and components are integrated. This type of preparation is called “whole building design,” meaning that the structures are created so that the entire building acts as one fluent system. Within the plan can be the use of renewable energy, environmentally sound means of waste disposal, and the use of rain water, which can even be incorporated into the water needs of the building.

The goals of green building include:

• Using sustainable, earth-friendly building materials. You’ll want nontoxic materials with minimal if any chemical emissions, known as low in Volatile Organic Compounds (VOC). You will also want materials that do not require toxic or VOC-producing chemicals for their assembly.

• Energy efficiency, which means minimizing “traditional” energy use while providing the same benefits and comforts.

• Water efficiency, which can employ various ways to limit wasting water, while finding ways of reusing it.

• Excellent indoor air quality. This is a broad term that can include anything from nontoxic paints and chemicals to eco-friendly flooring as well as good ventilation.

• Utilizing the land in an efficient manner, which can include anything from landscaping to bicycle paths to environmentally friendly non-asphalt parking lots (grass).

• Utilizing local materials and resources when building to cut down on shipping, which also means saving significant energy.

Renewable, recyclable, and environmentally responsible materials are what you are seeking when planning to build green. There are numerous green-minded architects...
who are knowledgeable and experienced in sustainable building who will advise you regarding the best materials and walk you through a lifecycle assessment. Of course this will depend, in part, on the size and scope of your needs and where you are located. Along with recycled materials, you will also find that there are certified woods and various organic products that can be used in the building process. Many green builders are also good at finding and utilizing local reusable materials, such as wood salvaged from old barns, which is becoming more widely used in some areas of the country.

The U.S. Green Building Council (USGBC) is one place to find out more about LEED, a Green Building Rating System®. You’ll find them at usgbc.org.

You may also visit the American Institute of Architects at aia.org or the Sustainable Building sourcebook at greenbuilder.com/sourcebook.

Leasing Versus Buying and Building

Again, this is a question that faces new entrepreneurs, who can also toss in the third option of starting out at home. Leasing space is a marvelous means of getting your feet wet and your business established in an area. It is a way to test the waters and determine if this is a place in which you can grow, while establishing a customer base.

In some cases you will outgrow your location, meaning that when the lease is up you can look for a larger space. In other cases, the space may be more than you need, in which case you should find out before signing the lease as to whether you can sublet some of the space to another new, growing business.

Leasing is obviously less costly than buying an existing structure. However, you need to sit down with an attorney and go over the terms of the lease very carefully, especially if you are thinking that the location needs some greening. You’ll need to find out specifically what you can and cannot do in the leased space. In addition, you’ll need to know how much the rent can be raised at the end of the lease. Too many lessees are forced to move when their leases end because the rents are hiked too high.

Owning an existing building gives you much greater leeway to do as you wish, which can allow your green spirit to thrive. However, to buy a property, you need to

Smart Tip

Architects and builders will detail each “green” aspect of the project from the ground up. Such details are in the standard building specifications, or “specs.” Make sure that you are working with a green architect and that the specs include the green ideas that you discuss ahead of time. In short, review the specs and make sure all of the green ideas and plans are worked into the building contract in advance.
have it checked out very carefully to make sure it meets your needs and that you won’t have to overhaul the facility. Buying a facility and having to make significant changes, especially to make it sustainable, may be more costly than your new business can withstand. Buying means you must be certain that you want this to be your business home for some time. This also means doing some investigation to see what is being planned in and around the location in the future. Will real estate values plummet? Will changes to the landscape cause you to lose business? Careful due diligence is highly recommended.

If you plan to buy land and then build, you have even greater potential to start off on the green foot. However, you will need that much more money to afford land and building costs. You’ll also need to know the local ordinances and what you are and are not allowed to do with the land; not every area is wind-turbine friendly for example. Building your own facility will generally allow you the most flexibility in terms of the overall design of your business, as well as your environmental concerns. However, it is much more costly, and a major risk for a new business owner. It also takes much more time until you can open your doors for business.

The home business is a growing reality of our culture, thanks in large part to technology and the means in which it is easy to communicate. A small home business can flourish without much overhead. And if you can maintain a green lifestyle, your carbon footprint can be very minimal. Several of the companies featured in our 22 green business examples in Chapter Two are run from a home base. Many major businesses, such as Lillian Vernon, started at home. In fact, she began her catalog empire from her kitchen table. Homebased businesses are growing at a significant rate and serving as green from the start in part because of the lack of commuting.

**Finding a Green Builder, Architect, and/or Contractor**

Today, more and more builders, architects, and contractors focus on sustainability in design and construction. If you are building or even renovating a space, you can now get expert advice on going green (and find numerous architects) from The American Institute of Architects, aia.org. You’ll also want to take a look at The United State’s Green Business Council’s website at usgbc.org. The USGBC is a nonprofit community of leaders who work together to help make green buildings available to everyone. They provide plenty of information including workshops, courses, and LEED reference guides. As defined by the USGBC, in regards to your business environment, LEED certification provides independent, third-party verification that a building project is environmentally responsible, profitable, and a healthy place to work.
Prior to bringing in an architect or contractor to build, rebuild, or renovate your business locale, you will want to learn a little about green architecture, including building materials, sustainability, water efficiency, energy needs, and indoor air quality.

As is typically the case with hiring a professional, you will want to look at credentials, review some previous jobs, and perhaps check out some green references. See if the architect, contractor, or builder has a portfolio of some previous projects and if he or she belongs to any green organizations. If you have specific areas of concern for your business, you’ll want to ask about the architect’s experience in those areas. In addition, you will want to find out how a contractor or builder works. You are looking for someone who does not contaminate the environment while in the building process and even recycles and reuses older materials.

Your job is to tell a true green architect, contractor, or builder from one who has simply jumped on the green bandwagon and is doing some “greenwashing.”

Reaching 100 percent sustainability may be a tall order, but if you are building from the ground up, you can aim to be as green as possible.

Brownfields

One option for a green location is a Brownfield. This term refers to a location that is typically an abandoned building, such as an old factory, warehouse, or gas station. It can also refer to vacant land. The U.S. EPA defines a Brownfield as” Real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.

Brownfields can be the result of a poor economy or a company needing to move to a newer, more prosperous location. Whatever the reason, such a location can be much cheaper than building from scratch or buying a new facility. The two caveats are:

1. Can you find the owners of the property? This sometimes takes some searching.
2. How much will it cost to fix up the facility and bring it up to code? Often, these buildings are far from green and need a lot of work. This may or may not make such a move cost effective. You will need engineers and Brownfield Development specialists to evaluate the property and let you know what needs to be done.

In contrast to new building—which can be a leading cause of carbon emissions leading to pollution—redevelopment of a Brownfield can be a productive manner of utilizing existing land. It’s a significant definition of the word “reuse,” which plays a major part in going green. In the course of eliminating what is often an unsafe, potentially hazardous structure, a Brownfield can raise the property values of an area while introducing sustainable principles.
There are more than 400,000 Brownfields in the United States. You can find out more about how to redevelop one for your needs from the National Brownfield Association, at brownfieldassociation.org, or from their bi-monthly publication Brownfield News.

Energy Options

Along with finding a location, you will early on want to determine your energy needs and how you hope to fulfill them. If you are leasing, you may not have an option. I use the term “hope” because you may not have the initial funding to switch from an on-the-grid traditional means of power to a renewable means of power.

It’s important to keep in mind that options such as solar power will save a business money in the long term. And it’s also worth keeping in mind that passive solar energy is an inexpensive means of lowering your energy expenditures. Therefore, let’s start with the passive solar energy option, which you want to keep in mind when leasing, building, or renovating a location.

Passive heating and cooling is essentially a means of utilizing the heat from the sun, or blocking it, in an effort to control the temperature in your facility. Since sunlight does not require installation and is available in all parts of the world, it is the planet’s leading source of energy. The concept of passive solar energy centers around having a strategy to maximize or minimize the amount of sunlight for heat, rather than depending on traditional fossil fuel-based energy sources. It can be a simple and very cost-effective manner of creating a green environment while also keeping your energy bills low in the process.

If you are building a new structure, or renovating your current one, you can position windows or add a sunroof to maximize the amount of heat you will let in. The concept is to let in heat during the warmest times of day and then “seal the envelope,” as they say—shut all doors and windows—to keep the warm air in the space as it gets cooler. Conversely, in a warmer climate, you would open windows and a skylight during cooler hours and then seal in the cool air during warmer parts of the day. Shading can also be used effectively to minimize the heat while also being maneuvered to allow heat in when necessary. Operable skylights are particularly advantageous for passive cooling and heating. Opening a skylight allows the heat to rise out of the building; the

Smart Tip

Ever hear of fly ash? Fly ash is the fine residue powder byproduct from coal-fired electric generating plants. For building purposes, fly ash can be a great substitute for the less environmentally-friendly Portland Cement, most commonly found in concrete. Using 50 percent fly ash instead of Portland Cement will create a greener concrete that will be just as solid and dependable as traditional concrete.

Tip...
escaped air then needs to be replaced, so it is pulled in from the outside creating natural convection and making the room cooler.

Another key to your heating will be both the colors used in the room, some of which draw heat more than others, and the flooring. If, for example, you have south facing windows that let the sun in, you can install the right type of flooring to help you heat the room. To do this, you will want to have a thermal mass, which is any material with the capacity to store heat, such as concrete or stone.

You can also focus attention on cross-ventilation and the direction of prevailing winds, which can be used to bring in cooler air during the nighttime by opening specific windows.

For all buildings looking to utilize passive solar energy, it is important that you are able to maintain an air-tight building in order to capture, and then maintain, a temperature level inside the facility. High-efficiency windows, together with R-2000 levels of insulation and airtight construction allow passive solar heating to cover a large proportion of heating needs in many locations.

If, with the help of an environmentally proficient architect, designer, builder, or contractor, you can design a means by which the temperature is largely regulated by controlling the amount of hot and cold air in the facility, you will have achieved a means of passive solar heating/cooling. Another option you can consider, if you are getting too much heat, is to cool the roof of your building by using materials to make a more reflective surface, rather than one that absorbs heat. Plants can help keep a roof cool, while providing a natural green environment. Of course before planting, you’ll need to make sure your roof is waterproofed and that you’ve done the necessary prep work prior to installing planters. Ford Motor Company’s River Rouge Plant in Dearborn, Michigan, serves as a grand example of what plants can do—they feature 42,000 square meters of plants—while Silvercup Studios in New York City sports some 35,000 square feet of greenery above the television and film studio.

Solar Panels and Wind Turbines

Two primary means of renewable energy are solar panels and wind turbines. The hope is that someday in the near future more businesses (and homes) will be utilizing
these two means of generating power and less traditional power sources. One encouraging sign is that the government provides rebates and tax incentives for the use of renewable energy.

In order to utilize solar power, you will need to have an assessment, or audit, done to determine if such energy will be possible for your business. Some areas get more sunlight than others making it easier to utilize solar panels. Roger Strong, of Solar Wind Power introduced in Chapter 2, notes that readings known as “sun hours” can range from 3 to 7.5, the higher in areas such as the Mohave Desert. “We utilize solar maps of the United States which illustrate areas of lower and higher sun ratings,” adds Strong, a renewable energy consultant.

Companies in the solar energy business will help you determine whether solar panels will be effective and a cost saver for your business. The panels themselves are rather inexpensive and have become more aesthetically pleasing in recent years. The type of structure will also factor into the equation. While most businesses do not go 100 percent solar, you can make a serious dent in your energy bills by going 25 to 50 percent solar. For example, if you run on solar power during just the higher rate hours as charged by your traditional energy server, you can save more money.

To measure the amount of electricity you are using, you will use what is called Net metering, which is now allowed in most states. This is a means of determining how much electricity you are using from the grid (or your electric company) and how much is being used from your solar panels. Power can come from the solar panels and be used first. Then the remaining needs are switched to the grid. If there’s extra solar power, it goes back to the grid and turns the meter backwards.

So how much energy will you need? This will be determined by an assessment of your energy usage. If, as a small business, you use 1,300 kilowatt hours per month, then, at $9 per watt, your solar system, including installation and equipment, would run $11,700 before rebates and tax credits (9 x 1,300). This will vary depending on your needs.

Since all of the technical work is done by solar professionals, they can ultimately tell you how feasible solar power is for your place of business and then, in conjunction with the experts, you can determine how much cost savings you will see while benefiting the environment.

The other popular option is wind turbine power, which means windmills using the energy of the wind to power your business. You can either have wind turbines set up near your business or be part of a wind turbine farm.

Today, you’ll find an increasing number of wind turbine-powered businesses in the United States, although far fewer than there should be considering the tremendous advantages of this low cost means of generating power.
Not unlike solar power, wind turbine power will be more effective in some areas than others. Coastal areas that get more wind will be more likely locations for wind turbines than most urban areas where large structures cut down on the wind.

Again, not unlike solar power, the conditions will need to be just right. “We look for at least five meters per second for average annual wind speed, which is about 11.2 miles per hour” says Roger Strong. He also points to the importance of wind speed. “If you compare 10 miles per hour to 12 miles per hour you can see a significant difference. The output from wind is measured by the cube of the wind speed, so 10 cubed versus 12 cubed is a 70 percent difference in power,” explains Strong, adding that areas with above-average wind speed can make exponentially more power while areas below 5 mph generally cannot justify the cost.

While windmill height should generally be 30 feet higher than the surrounding buildings or trees within a 500-foot radius, there are also small boxes with small propellers that actually fit into the building, which can match the aesthetics of some businesses more easily. They are, however, less effective than the larger windmills, which are excellent, and often blend right into the landscape in rural locations.

Typically wind turbines for a business will cost anywhere from $6,000 to $20,000, so you will need to have enough startup money to get these environmentally friendly sources of power off the ground, so to speak. Once again, you will need to call in experts to determine whether or not wind power will work for your business.

Renewable energy sources are excellent ways to establish your commitment to the planet, while setting up long term means of saving money. The Solar America Initiative (SAI) is accelerating the development of photovoltaic (also known as PV or solar electricity) technologies with the goal of making solar electricity from PV cost competitive with conventional grid electricity by 2015.
Green businesses, like all businesses, need “green” to get started. Launching a business takes some capital, whether it’s a few hundred dollars to start an organic business from home or a few hundred thousand dollars to purchase and renovate a Brownfield into an environmentally sound factory.
Most businesses will start out somewhere in between, and you will need to factor in startup costs along with the necessary operating costs of running your business on a monthly basis. Each business has specific requirements, along with some general business needs, which we will discuss here. You will need to do research to determine the costs of supplies, equipment, and inventory and then determine how much of each you will need to get started. In some areas going green will cost a little more up front but will pay off down the road. In other cases, you can save money, and the environment, right off the bat.

## Startup Costs

As the title implies, these are the costs that help you launch your business. Many will be one-time costs, while some will be the beginning of ongoing costs. For example, you will pay two months’ rent up front, but then begin paying monthly. Startup costs will include all necessary licenses and permits to start your business, the cost of setting up a website; initial marketing and publicity expenses; office furnishings, business equipment, inventory (for retailers); a couple months of rent, or your down payment if you are buying a building or land on which to build.

For manufacturing you may need specialized equipment to create your products. For a retail business, you may need various types of display racks, possibly freezers or even mannequins. Regardless of what you need specifically for your business, you will need some standard goodies, such as computers, printers, and a reliable phone system.

## Computer Considerations

It’s very rare to find a business today that does not utilize computers in some capacity. Whether it is for basic bookkeeping and e-mails or it’s the backbone of your entire enterprise, you’ll need computer equipment. In such a broad category, it’s impossible to discuss the myriad of possibilities, ranging from one Blackberry to an elaborate network of twenty or more desktops. You can, however, think green in your computer shopping (and use).

First, keep in mind that laptops are better energy savers than desktops. Next, as is the case with nearly all equipment and appliances, you should look for Energy Star models. According to Energy Star’s computer requirements (as of early 2008) the latest models are expected to save consumers and businesses more than $1.8 billion in energy costs over the next five years and prevent greenhouse gas emissions equal to the annual emissions of 2.7 million vehicles. These computers have lead-free circuitry
and components, means of keeping the power supply cooler, and are designed to waste less power than their predecessors.

You can check out wattage used by looking at the specs for most computers and even do comparisons on various computer-oriented websites. Since most desktops use roughly 100 watts you want to look for the new breed of eco-friendly computers that use less than 75 watts while in use, less than 50 watts while idle, and 4 watts in sleep mode. When looking at laptops, you should look for models using less than 35 watts when in use, less than 15 watts in idle, and 2 watts when in sleep mode. Once upon a time your PC would run on full power at all times; that is no longer the case. Greener models switch to sleep mode when you are not using the computer, and even on older models, you can usually set the computer for sleep mode. This is far better than those fancy screen savers, which were major energy wasters.

In a highly competitive field you can be sure that along with the latest version of Apple’s MacBook, you will find a wide range of emerging green models if you stay on top of the latest in computer technology from PC Magazine, Computer World, or other leading sources.

As of 2008, Zonbu Desktop Mini, the Zonbu notebook and Everex gPC VIA., Dell’s Optiplex 755 and Latitude D630, Toshiba’s Tecra A9-S9013, HP’s Compaq dc7800 and the bare bones model dc5800 are among the latest in greener computers. Keep in mind that by the time you are done reading this page, newer models may have come out. Also keep in mind that newer models may cost more for features you don’t really need, so pricing the recent previous model may be advantageous. Of course if you are one of those businesses that does not need the latest system, you can also purchase a previously owned model inexpensively, keeping one more computer from ending up in landfill.

The reuse of technology is becoming an important part of saving the vast amount of waste on the planet, and a green office can benefit if the computer needs are met by a computer from a recent year rather than a brand new model. Many small offices, and home offices, have done quite well with computers purchased from, or simply provided by, a friend, neighbor, relative, or business acquaintance who needed to purchase a more updated model for their line of work (or because they love the energy-wasting computer games).

While desktops are still very much in vogue for many businesses, laptops are adding a degree of mobility for millions of business owners and employees. Models range from under $1,000 to the higher end at $3,000+. When shopping for a laptop, look for something that is light but sturdy enough to withstand some bouncing around as you travel. Try out the trackball and look at the size of the screen—you need to feel comfortable. Popular laptops and notebooks can be found from Dell, Hewlett Packard, Compaq, Toshiba, IBM, Sony, Gateway, Fujitsu/Fuji, Acer, eMachines, and Apple.
Since laptops consume five times less energy than desktop PCs, they are becoming the choice of the new computer generation. As a business owner, laptops also allow you some flexibility in setting up your office, since people can move around, if necessary, or share workstations. Most laptops now include options for dual-core processors, and some even squeeze in two video cards in a Scalable Link Interface (SLI) configuration. If you are still dead set on buying a desktop, you can consider Small Form Factor Desktops, which are now an option from several leading computer makers. They are smaller, and require less energy than the traditional desktops. HP Pavilion Slimline S3330f and the HP Compaq DC7800 are among the latest in this PC series.

Also, when shopping for a desktop or laptop, keep an eye out for what are called “bundled extras,” while browsing and comparing prices. Intrinsically necessary items like software, ink cartridges, and various peripherals can be part of a deal that might cost several hundred dollars if purchased separately. However, don’t be sold on things you don’t need, and ask for recycled possibilities since many companies are using recycled parts in their models.

The other means of making your computer use green from day one, is to start out by having computer policies in place, such as not leaving the machine on for hours while you are not using it. Also, opt for sleep mode when away from it.

For your sake, policies can include computer sharing. This means you will not need a computer for every single employee but can, instead, have two people alternate schedules and share one computer. Other policies might include looking for software or downloading programs that do not require high-end graphics. Also keep in mind that your monitor should be of the LCD variety, which is most likely what you will see advertised and on the sales floor (or manufacturer website) since CRT monitors are becoming a thing of the past. LCD monitors use less energy.

Of course software will also make a difference in energy use. Elaborate software with plenty of graphics can demand more energy expenditure than software with fewer bells and whistles. Today, the once “packaged” software products are offered directly over the web. Microsoft, for example, offers paperless options through sharing technology, which can be accessed online with passwords. Integrated with Microsoft Office 2008 are two systems, Groove and Office Live Workspace, both of which create a virtual sharing experience that creates a network environment for users.
who can see and make changes to each other’s work. Another Microsoft software application, Live Meetings, allows numerous people to connect via virtual meeting technology, saving not only paper but, more significantly, travel. While face-to-face meetings cannot be eliminated, especially for the small business owner, it is not always easy or practical to meet with suppliers or even staff personnel who are at a different location. “One of the biggest concerns today of small-business owners is the price of gas,” says Bill Rielly, Marketing Director for Microsoft Small and Midsize Businesses. “For pitching a new customer or talking to a contractor, it’s a way to have a focused conversation without having to be face to face,” adds Rielly of the electronically distributed software. It’s also worth noting that the move by Microsoft and other companies to electronic software is a huge plus for the environment, saving on the packaging and shipping of software programs.

Even the much maligned Windows Vista has now come of age thanks to hours of retooling, and it, too, has gone green using sleep mode and hibernate to shut down power when not in use. “In a study, we found that for every ten computers that are upgraded to Vista, the environmental impact is the equivalent to taking one car off the road,” adds Rielly.

Printers and Eco-Friendly Ways of Using Them

There is a move toward eco-friendly printers, and companies like Hewlett Packard are taking the environmental concerns seriously by utilizing recycled parts in their latest models. Roughly 83 percent of the plastic in HP’s D2545 printer is made from recycled plastics, while its packaging is 100 percent recyclable. In addition, the new printer uses the HP 60 black cartridges, which are made with 75 percent recycled plastic. Nokia, among other companies are introducing greener printers.

While energy-efficient models will cut down on energy expenditure, and recycled parts minimize that which is headed to landfill, the greenest printer may be the one that you use

Smart Tip
Want to draw more customers to your location? Find a cartridge recycling location in your area . . . then put up a sign that customers can bring in cartridges to be recycled and you will give them the money for the recycled cartridges and take them in to the recycling location. If you position your mini-in-store recycling center near some impulse buys or in a place where they will pass some of your hottest selling items, who knows, drawing them in to the store might also prompt a sale. Other stores do this with batteries and other recyclable items. It’s good for business and for the environment.
sparingly, so as not to waste paper. Printing on both sides will also cut paper use in half. Printers like the HP6122 Ink Jet can be had for under $200 and print quickly on both sides. Also, sending messages, memos, documents, and even manuscripts electronically, rather than printing hard copies, can be a major energy saver. While offices will need hard copies of invoices and contracts, you can minimize your need for hard copies by prioritizing what does and does not need to be printed. In addition, you can buy remanufactured laser toner, or ink, cartridges. And, when you are finished with your printer cartridges, you can recycle them for a longer life.

**Telephone Systems**

The next “must have” on your list of startup costs is a telephone system that you can rely on. While phone systems today can be elaborate, you can save yourself expense and energy waste by simply going with the features you need. Too many business owners allow themselves to get suckered into buying a more elaborate, hence more complicated, telephone system, than they really need. Think “user friendly” when buying a phone system and remember the size of the business—sometimes small and simple is better. Also, utilize voice mail over answering machines. Voice mail is more professional for a business and saves energy as well. You will also typically have a cell phone or two for business use. Today, people are buying new cell phones at an alarming rate, fulfilling a need for the latest and greatest features. The problem is that cell phones are also discarded at an alarming rate: It is estimated that roughly 120 million cell phones are being retired each year in the United States. Since less than 3 percent are ever actually used by someone else, most end up in closets, drawers, or somewhere in the home, gathering dust. However, discarded cell phones are also ending up in landfill, and account for nearly 65,000 tons of toxic waste annually. It is important to get into the habit of recycling electronics, which includes cell phones, along with printer cartridges. There are a growing number of recycling centers springing up for cell phones. This is another area in which you can serve as a drop-off center and attract potential customers.

You can check out e-cycling cell phones at New Tech Recycling, newtechrecycling.com, Recellular at recellular.com/recycling, or find recycling locations at EcoCell at eco-cell.org/locate_recycler.asp.

**Other Equipment**

There are plenty of other possible pieces of equipment, some of which can be greener through energy-efficient technology, which usually means not wasting
electricity when not in actual use. You also want technology that does not emit toxins into the air. Of course, in many cases, the best way to utilize any equipment in an environmentally friendly manner is not to use it unless necessary. Here are a few of the many potential office items with some basic green thinking that can become your business policy.

- **Fax machines.** Unnecessary. If you use a fax software program, you can save on paper by having faxes go directly to your computer. You also eliminate “junk” faxes and another piece of equipment using energy and ending up as landfill. Many businesses are finding minimal need for fax machines.

- **Shredders.** If you must shred paper, then use it for your shipping needs.

- **Digital cameras.** Digital cameras are more environmentally friendly than their traditional counterparts because they do not involve photo processing chemicals that are discarded and are harmful to the environment. You can enhance their eco-attributes by using rechargeable batteries. Be careful, however, not to overload photos onto your computer or you will slow it down.

- **Calculators.** There are plenty of good solar models available.

- **Copiers.** Almost everyone leases their copiers today. Many are multi-purpose machines, with printing, scanning, and the ability to send materials directly to and from your PC network. Some models, such as Panasonic’s C-3 series, warm up very quickly (in 15 seconds) and allow you to shut down the machine when not in use, thus saving energy. Before leasing a copier read the lease agreement carefully.

### Greener Office Supplies

Binders and paper products, including envelopes, can typically be found made from 30 to 75 percent recycled materials. Refillable pens, pencils from high-quality wood, markers from nontoxic materials, and other such supplies are all available today from various suppliers. Also remember not to over order and to keep track of what you have in house. Too much waste is the result of simply misusing and even losing supplies.

“We use 100 percent post-consumer recycled paper and have 95 percent recycled content in our furniture, some of which is made from wheat straw,” says Chris Bartle, founder of the California based Evergreen Group LLC, a sustainable business brokerage dedicated to helping business owners buy and sell green businesses.

As you get into the habit of buying and using recycled products, it’s a good idea to spread the word by letting vendors and customers know that you are dong so in hopes that you set an example for other businesses and individuals.
Green Office Furniture

Your basic office needs will typically include a desk and/or workstation as well as an ergonomically designed chair, plus storage and filing space. The more customers and clients you anticipate visiting your office, the more you will need to design to impress, as well as for practical purposes. Conversely, an office in the back of a retail store or a manufacturing facility or a home office from which you will rarely entertain visitors needs to focus primarily on function rather than form.

There are two approaches you’ll want to take when shopping for office furniture in general. First you want to be cost effective and second, you want to focus on sustainability in the products you choose. There are plenty of environmentally friendly furniture options. Of course you may be wondering how your office furniture affects the environment while it sits quietly in its designated location. First, the production of office furniture depletes the forests and mineral reserves. Second, the making of such furniture releases emissions from chemicals into the air. Finally, some furniture continues to emit volatile organic compounds into the air in your office, causing indoor air pollution.

To be cost effective, you will need to consider what you need in order to present a “look” and what you need simply for functionality. For the latter, you can explore previously owned items and even scout around to see if you have something at home that, with a little work, might fit the bill. Recycling furniture is a marvelous means

Read the Fine Print

While minimizing the use of paper is a goal of most eco-efficient businesses, there will be a need for some paper in any business situation. Again, you need to have the green mindset. Look for paper with a high percentage of postconsumer recycled content rather than paper from 100 percent virgin pulp. While you may not always have the choice (depending on where you shop) you can ask if “recycled” means from post-consumer recycled content or not. If not, and you have no other choice, buy the paper recycled from 100 percent virgin pulp. The difference is that you are buying paper that was discarded in the production process, which is better than having it go to waste. However, paper that has been used by consumers and recycled keeps the product in the lifecycle. You also want to buy processed chlorine-free paper.
of helping the environment while keeping your costs down. Considering that U.S. companies buy about 3 million desks, 16.5 million chairs, 4.5 million tables, and 11 million file cabinets each year, it is very likely that you will be able to cash in on someone’s former furnishings and, with a little refurbishing, make them look brand new.

Here are some eco-friendly tips for buying office furniture:

1. Look for office furniture made from recycled plastics, paper, wood, and/or steel. Seek out post-consumer recycled content.
2. Look for products that are free of volatile organic compounds (VOC).
3. Consider products made from bamboo, such as a Kyoto Bamboo Desk or bamboo flooring, which is becoming more popular.
4. Look for companies making furniture from sustainably harvested woods, and look for Forest Stewardship Council (FSC) certified woods.
5. Seek out products made with bio-based, or nontoxic materials, and with glues, paints, foams, and other ingredients that don’t give off noxious odors.
6. Look for environmental certifications such as LEED certified or certification from Greenguard.

In an effort to appeal to the eco-culture of the modern business office, it is becoming much easier to find greener office furniture. Leading companies, including Herman Miller and the Knoll Group, are designing furniture that meets high standards in health, safety, and sustainability. Both companies deal largely in wood products and have made strong efforts to work with producers with best overall forestry practices.

Other companies, such as Guilford of Maine and Steelcase are utilizing a wide range of recycled products, including recycled soda bottles, in creating their new lines of office furniture.

From a buyer’s perspective, it is easier than ever to visit websites and get the low-down on what types of materials are included and the chemical makeup of the end products. You can also see if the products contain recycled materials and can be recycled after their usefulness to you.

Some of the many green office shopping sites include the Green Office at greenoffice.com, which will tell you what level of green you’ll get with each product, Green Office Projects at greenofficeprojects.com, and Ergonomic Home at ergonomichome.com, which has a green office section. You might also get some ideas from visiting Open Plan Systems at openplan.com, a company that re-manufactures furniture, especially Herman Miller workstations and basically turns old into new. By cleaning and repainting, using low VOC coatings and finishes, and adding new environmental fabrics, this Richmond, Virginia, company can provide low-cost office options that look great.
Chairs and Lighting

Two areas of significance, when furnishing your office, which are often overlooked are chairs and lighting. Both are a key factor in the health and well-being of your employees, and both can also be green. Ergonomically designed chairs are a must for long hours on the computer. Back and neck pain, carpal tunnel syndrome, and other ailments are very often the result of bending, straining, or reaching from chairs that are not designed for your work needs. And, many such chairs are made from recycled materials. While you can skimp on filing cabinets by repainting some older ones, don’t skimp on quality office chairs or you may find yourself paying for it down the road at your chiropractor’s office.

There are three ways to light your space. First, you need some general lighting for your facility, illuminating the overall space. Next you need workspace-specific lighting, also known as task-specific lighting, which is very important for working closely on projects. Finally, you should include some natural lighting from our old friend, the sun. In fact, large windows with unencumbered views can allow you to use your general overhead lighting less and save money. And you can still maintain a cool environment if you recall what we discussed earlier about passive cooling, or letting cool air in at night, sealing the envelope, or locking it in for the daytime.

The type of lighting used is also a key to being more energy efficient. In fact, the International Energy Agency published in a report that a global switch to efficient lighting systems would cut the world’s energy cost by 10 percent. Traditional incandescent bulbs emit more carbon emissions and use more energy. With that in mind, LED (light-emitting diode) and CFL (compact fluorescent lamp) bulbs have become the bulbs of choice for the new eco-friendly culture.

One significant difference offered by these newer bulbs is the amount of hours of light. For example, an LED bulb has a lifespan of roughly 60,000 hours, while a CFL bulb provides 10,000 hours. Incandescent bulbs last only about 1,500 hours. LED lights save energy because they do not have a filament that needs to be heated up (as in incandescent bulbs). In other words, the electrical energy used is going directly to generating light, rather than heat and then, subsequently, light. CFL bulbs radiate a different light spectrum from that of incandescent lamps but can usually be used in the same light sockets. You’ll also find compact fluorescent tubes (CFTs) which are the fluorescent

Smart Tip
Did you know that if you have 20 to 30 incandescent lightbulbs in your house, averaging 6-hours a day of use, you could replace them all with CFL bulbs and reduce your annual CO₂ output by upward of 2.3 metric tons in a year, which is roughly 10 percent of the average American household’s annual carbon footprint.
versions. A CFL or CFT contains a gas-filled tube and, typically, an electronic ballast. Electric current flowing through this ballast, with the gas inside, creates ultraviolet light. This powers the phosphor coating in the tube creating the light that you see. This process also requires less energy than the incandescent light bulb, saving you on your energy costs by as much as 66 to 75 percent if you were to replace all of your lighting with CFLs. It should also be noted the CFLs, as well as LEDs, do not emit as much heat as incandescent bulbs, lowering your need for cooling your office, retail, or factory space.

Of course basic lighting policies such as not leaving lights on when nobody is in the office and even having light sensors to shut off lights in copy rooms or other areas when they are not being used also helps keep lighting bills lower.

Green Printing

Brochures, special mailing, promotional materials, receipts, invoices, and other printed matter will likely be a part of your business. While the paperless office is a nice idea, it remains impractical in the real world.

You can, however, make a difference with the right ink on your printed materials. While often overlooked, the use of ink and printed matter is among the most significant contributors to global warming and the environmental damage to our planet.

In fact, the third largest contributor to pollution in the industrialized world is the paper/pulp industry. This does not even take into account the many trees that are destroyed in the papermaking process.

Along with the use of recycled paper, as mentioned earlier, and Processed Chlorine Free (PCF) paper, which is made without the use of chlorine or chlorine derivatives, you can look for ink that is not petroleum based. Today it is easy to find ink made from a soy, vinegar, or vegetable oil base, all of which have fewer volatile organic compounds (VOC) than their traditional petroleum-based ink counterparts.

The other, and simplest, way to be eco-friendly when it comes to printed materials is to order what you need. It is very common for businesses that have 200 attendees at a seminar to run 300 copies of the program, or for 2,000 employees, to run 3,000 copies of the corporate handbook. Overruns are a tremendous waste of paper and printing materials. Consider electronic means of disseminating information whenever possible, printing on both sides, and looking for other ways to minimize your printing needs.

For more on green printing, you can check out Green Printer at greenprinter.com or Quad Graphics at qg.com.
One area you will need to consider carefully is your website. In today’s world, a small business can have a major presence and compete with much larger businesses by having a first-rate website. Only if you are very well versed in website building should you create it yourself.

From $1,000 to $100,000, you can have a website designed to your liking. Typically, such a job should be in the $2,000 to $10,000 range depending on how elaborate your site needs to be and what you are using it for. The three main purposes of a business website are to:

1. Advertise and promote your business
2. Provide information and knowledge about your products and services
3. Sell goods and/or services.

Therefore, you need to determine what it is that your site will feature. Obviously, if your business is strictly web based, you will need to focus heavily on all three. However, if you are opening an organic restaurant, you will primarily need to advertise and promote on one page and provide some information, such as a menu and directions on another. A simple two- or three-page site should be easy and inexpensive to set up.

While you cannot steal someone else’s site, you can get ideas from tons of other sites, which is exactly what you should do before looking for a web designer. This will allow you to see what type of sites you like best and show them to a designer. It will also help you find a designer whose work meets your needs.

Since every business needs a website today, here are 15 tips to getting yours started:

1. *Think reader friendly, as in easy on the eyes.* Weird color combinations and crowded pages are very hard for viewers, especially when you consider how many people are now looking at the internet on small screens on their handheld devices.
2. *Remember that less can be more.* White space is not your enemy.
3. *Set the tone of the business.* A business selling toys or services for kids, such as party planning, should have a cheery, upbeat, even somewhat colorful style, while a consulting service will have a more sedate image. Match the image to the business.
4. *Make it clear what your business does (or sells).* Too many business websites provide “solutions” and are, therefore, very ambiguous. Other companies try to sell or promote everything under the sun, which gets extremely confusing for
buyers. Go with your strengths upfront. Customers can always look further for more information.

5. **Make sure the site is designed for easy navigation.** Nobody likes to click again and again and again and again to get to what they are looking for. If a customer doesn’t see what he or she is looking for in one or two (maybe three) clicks, he or she is gone.

6. **Have an “About Us” page and be transparent.** Nameless, faceless websites in an age of security concerns, do not win people over.

7. **Make sure you have a clearly written privacy policy.** Read those on other sites and have an attorney help you draft one using similar language. Make sure you adhere to the policy.

8. **Use fewer bells and whistles and more content.** Gimmicks, gadgets, slow-loading graphics, etc., all use more energy and waste people’s time. They were once new and exciting but have become a negative, especially when trying to be “greener”

9. **Promote your greenness.**

10. **Update your website often.** Stale sites do not entice return visitors.

11. **Make your site interactive if possible, through reader polls, contests, and other means.**

12. **Use “Forward to a friend” links so that your readers can help you advertise your site by doing it for you.**

13. **Provide some crisp, clean, fresh content so people have a reason to come back.**

14. **Make sure the site works by doing periodic checkups on all links.**

15. **Ask for feedback and suggestions and actually read and respond to them.**

To get your site up and running, you will need a hosting company, one that specializes in business, and work with a designer who has other sites that he or she can show you. Make sure your designer has the same vision as you have before he or she starts designing. Finally, look at the site in various stages before you see the finished product.

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**Startup Costs Revisited**

There’s no set formula for determining how much it will cost to start a business. The field is too broad, there are too many possibilities and types of possible businesses. For your purposes, you will want to make a list of each of the office equipment, furniture, and office supplies (including pens and paper, which have many recyclable options) you will need, as well as having your website designed and built. Also look at your initial advertising and marketing needs and so on.
Use the Startup Expenses Worksheet for a breakdown. You can fill in costs as they pertain to your business needs. Remember, the more creative you are at recycling older items, such as furniture, and the better you are at gauging what you actually will need and use, rather than overbuying (another problem that leads to waste and ultimately landfill), the better off you will be from an expense standpoint.

### Startup Costs Worksheet

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</thead>
<tbody>
<tr>
<td>Computer system(s) with printer(s)</td>
<td>$</td>
</tr>
<tr>
<td>Business equipment, both general, such as a copier, and industry</td>
<td>$</td>
</tr>
<tr>
<td>specific, such as your dental chair</td>
<td></td>
</tr>
<tr>
<td>Office furniture for one or many offices (cubicles can work too,</td>
<td>$</td>
</tr>
<tr>
<td>especially with eco-friendly cubicle designs made from recycled</td>
<td></td>
</tr>
<tr>
<td>materials)</td>
<td></td>
</tr>
<tr>
<td>Website design and promotion</td>
<td>$</td>
</tr>
<tr>
<td>Internet access</td>
<td>$</td>
</tr>
<tr>
<td>Software (general and business specific)</td>
<td>$</td>
</tr>
<tr>
<td>Electronic credit card processing if you are selling items or</td>
<td>$</td>
</tr>
<tr>
<td>services</td>
<td></td>
</tr>
<tr>
<td>Market research costs</td>
<td>$</td>
</tr>
<tr>
<td>Telephone system, including cell phones and voice mail (also a</td>
<td>$</td>
</tr>
<tr>
<td>call center if necessary to fulfill orders)</td>
<td></td>
</tr>
<tr>
<td>Stationery and office supplies</td>
<td>$</td>
</tr>
<tr>
<td>Shipping and packaging materials</td>
<td>$</td>
</tr>
<tr>
<td>Postage</td>
<td>$</td>
</tr>
<tr>
<td>Initial inventory for retailers</td>
<td>$</td>
</tr>
</tbody>
</table>
These are some of the most common and significant business startup costs. Clearly, such costs can run the gamut depending on the size and complexity of the business you are starting. Your goal is to determine your business size and scope and then research a reasonable startup cost to launch such a business. A small homebased crafts business might cost $2,000 to launch needing only craft supplies and a means of marketing your products. A home-cleaning business might cost $10,000 to get off the ground, while a retail store might be in the $50,000 to $100,000 range. A larger manufacturing business, with specialized equipment could run you several hundred thousand dollars. The point is, you will look at the possibilities and determine what size business you can feasibly open, manage, and run.

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### Startup Costs Worksheet

<table>
<thead>
<tr>
<th>Item</th>
<th>Startup Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business licenses and any other necessary requirements for doing business, such as a zoning variance if necessary</td>
<td>$</td>
</tr>
<tr>
<td>First two months’ rent or down payment for purchase</td>
<td>$</td>
</tr>
<tr>
<td>Business and property inspections</td>
<td>$</td>
</tr>
<tr>
<td>Initial utilities installation costs (which can be renewable energy as discussed earlier)</td>
<td>$</td>
</tr>
<tr>
<td>Remodeling or any contracting necessary</td>
<td>$</td>
</tr>
<tr>
<td>Vehicles for transporting goods or mobile services (look for hybrids or trucks running on biodiesel)</td>
<td>$</td>
</tr>
<tr>
<td>Landscaping and/or architectural needs</td>
<td>$</td>
</tr>
<tr>
<td>HVAC System (this, too, can be energy efficient)</td>
<td>$</td>
</tr>
<tr>
<td>Initial advertising and marketing budget (don’t skimp here)</td>
<td>$</td>
</tr>
<tr>
<td>Lawyer and accounting fees to help you get started</td>
<td>$</td>
</tr>
<tr>
<td><strong>Total Startup Expenses</strong></td>
<td><strong>$</strong></td>
</tr>
</tbody>
</table>
Operating Costs

Remember, along with startup costs, you will have monthly operating costs, which may include:

- Rent or mortgage payments
- Utilities
- Phone bills
- Heat and water bills
- Buying/restocking inventory
- Supplies
- Employee salaries and wages
- Employee benefits
- Website payments
- Advertising, promotion, and marketing costs
- Bookkeeping
- Legal and accounting fees
- Dues and subscriptions
- Security
- Maintenance (cleaning service)
- Postage and shipping
- Business travel and entertainment
- Repairs
- Commissions
- Insurance
- Taxes
- Miscellaneous

You will need to determine how much falls into each or all of these categories on a monthly basis. For areas such as repairs, which you may need only twice a year at $600 a pop, you would simply take the total, $1,200, and spread it out monthly at $100 per month. This way you can determine how much you will need on a monthly basis to launch and maintain your operation. Since most businesses take at least one year, and often as many as three years, to see a profit, you’ll want to look for a point in time in which you foresee at least enough money to cover your expenses.
If, for example, your startup costs for a small business come to $50,000 and you see that it will cost you $8,000 per month to run the business, then you are looking at $146,000 to make it through the first year, or $242,000 to get through two years, some of which will hopefully come from running the business with some income coming in.

In the next chapter we will look at some means of gathering the necessary money to launch your green business. Getting the “green” for going green—a nice concept.
Getting the Green to Go Green

Starting a business means having capital available. Whether it’s $5,000 from your last bonus check that will start your part-time business, or $100,000 saved up for years for the express purpose of opening your own company, you will need to know that you are funded above and beyond the money you need to cover your living expenses. Going into
great debt or sacrificing your home or the needs of your family is no way to start a business. Nor can you depend on the kindness of others to help you start. Sure, friends and family may help you out with chores, tasks, and even secondhand goods, especially in an effort to support the environment. But, there is no escaping the fact that it costs money (even a little bit) to make money.

Look at your numbers from the previous chapter. How much will you need in startup costs? How much to get through at least one year? Remember, you need to have cash available, not just for operating expenses but also for the many unexpected costs that will arise. Financing a business is not an easy proposition and separates the serious entrepreneurs from those with a dream but not the willingness to make it happen. If you are dreaming about a business that is potentially profitable while also benefiting the environment, you have two goals in mind and should have twice the incentive to go for the green, in both contexts.

Green Financing

There are several means of generating money for a business. Utilizing your “green” angle may make it a little bit easier as you go, since more and more government and environmental agencies are eager to support green initiatives. Even lenders are becoming more receptive to business plans that include sustainability and waste management.

In fact, the Environmental Bankers Association (EBA), a nonprofit trade association founded in 1994 in an effort to bring greater awareness to environmental risk issues and the need for environmental risk management, reported that Citibank and CitiFinancial (both EBA members) are not only designing bank branches with sustainable features, but also are committed to addressing global change. CitiBank has pledged to reduce greenhouse gas emissions by 10 percent by 2011. What does this mean for you? Greener banks mean environmentally friendlier lending possibilities. For example, Wells Fargo & Company, as of mid 2008, have provided more than $1.5 billion in financing for LEED-certified green buildings with loans ranging from $10 million to $225 million for properties such as offices, apartments, and schools.

A recent program launched by Bank of America (BOA) put $20 billion dollars aside to finance companies creating low-emission technology over the next decade. Bank of America will change its underwriting criteria for commercial loans to include environmental factors, such as whether a business creates “sustainable products, services and technologies.” Essentially, businesses creating less carbon output while making eco-friendly products will score higher on loan applications than those using an abundance of fossil fuels.
PNC Financial Services Group Inc., based in Pittsburgh, Pennsylvania, is another major supporter of green building and boasts 42 LEED-certified buildings, including its operational facilities in Pittsburgh and Wilmington, Delaware. They are also promoting sustainable building practices among loan officers and throughout the lending industry so that sustainability can be included in the underwriting of loans.

A smaller example of green lending comes from New Resource Bank in San Francisco, a niche lender since 2006 that focuses on a variety of green initiatives ranging from providing mortgages on green homes and commercial buildings to offering loans for green-oriented businesses.

While this does not mean that business loans are easy to get, it does mean that there is a much greater emphasis from banks and other lenders to include environmental criteria in the application process. Of course there are still no efficiency values or benchmarks that have been clearly established. However, greener buildings and companies are becoming more clearly visible and recognized by the U.S. Green Building Council, which has certified 1,129 commercial properties under their LEED rating system.

What all of this means is that if you shop around, you are more likely to find a lender who takes your green business ideas more seriously and gives you more points for your environmental plans than in the past. Corporate governance practices, including social responsibility and sustainable product finance, are rapidly becoming a growing concern for financial institutions, and environmental lending practices are incorporating many of these principles into their lending policies.

**Finding Funding**

Obviously banks, credit unions, and lending institutions are the primary means of finding the funding you need to launch a business. Other means include private or angel investors and venture capitalists.

The key to any borrowing situation is to demonstrate that you are not a bad risk, especially when dealing with commercial lenders. Your credit rating needs to be high and you need to demonstrate that you will be able to pay back the loan promptly. Before you start on your quest for money, it’s always a good idea to check on your credit score from the three major credit bureaus. This way you will know where you stand should you be seeking a loan.
If your credit scores are not where you’d like them to be, start working on paying off any and all outstanding debts and get to a point where you can open a new credit card or take out a small loan and pay it back promptly, thus showing you are on solid financial ground. Do not seek out places that can magically repair bad credit. Remember, anything that seems too good to be true usually is a major risk and you are very likely to find yourself in a worse situation, since it’s very unlikely that someone can turn around your bad credit unless they are handing you a check to pay it off. Even then, you still need to build up a track record of timely payments.

The All-Important Business Plan

Your next step in starting a business is to draw up a business plan. This is valuable whether you are seeking capital or not, but a must if you are looking for a loan from a lending institution.

The prospect of writing a business plan can be intimidating. However, with all of the templates and samples available in books, articles, and on websites, you do not have to re-invent the wheel. Depending on your business needs, you can make your business plan as formal or informal as you want. Certainly, if you are approaching a major lending institution for a $100,000 loan, you will want to have a more elaborate and detailed plan than if you are going to a local bank, or a private lender for $5,000. Either way, however, your business plan needs to be a well-thought-out document.

Taking Credit

Contact at least one of the big three credit bureaus for your credit scores.

- Equifax: (800) 685-1111, PO Box 740241, Atlanta, GA 30374; equifax.com
- Experian: (888) 397-3742, PO Box 2002, Allen, TX 75013, experian.com
- TransUnion: (800) 888-4213, PO Box 2000, Chester, PA 19022; transunion.com

Do this once, since the loan officers will also inquire and the more your credit ratings are checked, the more suspicious it can appear to lenders. Read over your ratings very carefully, since credit bureaus make more mistakes than you would ever imagine.
detailing what you plan to do with your business idea and how it will be profitable. In essence, your business plan is a blueprint for your company’s future.

There are actually two primary reasons for writing up such a plan. First, it will allow you to show lending institutions, or private lenders, that you have thought out this plan from every angle, that you have a complete picture of the business you are planning to start, including the finances that will be needed and how the money will be spent in each area, and what the projected return on the investment will be in one, three, five, and possibly even ten years down the road. It will also give you an opportunity to explain how your passion and concern for the environment will be represented in your business endeavor and how such environmental standards, policies, and practices will benefit the planet.

Your other primary reason for writing a business plan is that it serves as a guide for yourself, and for those involved in building and running the business. A good business plan is an ever-evolving document that can keep you on track, allowing you to see your progress, and can often help you determine whether there is or is not growth potential over time. You may look at your business plan and decide that everything is going better than schedule, thus allowing you to expand, perhaps by adding a new profit center. Conversely, your numbers may be lagging behind your projections. This might lead you to determine ways to improve upon the bottom line by making changes. In addition, you may see ways in which you can become more sustainable, save energy, and even utilize profits to explore eco-friendly initiatives.

To begin, you should look at the Center for Business Planning website on business plans at businessplans.org. You could also go to Palo Alto’s bplans.com or the Small Business Administration’s site, sba.org, and look up business plans. You can also ask other business owners that you know if you can peruse their business plans. Books available on the subject, such as David H. Bangs, Jr.’s Business Plans Made Easy, Tim Berry’s Plan-As-You-Go Business Plan, Mike P. McKeever’s How to Write a Business Plan, or Nik Kerner’s Creating a Business Plan: Your Dream Concept Made Real can also be helpful.

Of course many older and more traditional plans won’t include green elements, or perhaps very minimally. You, however, can work both a sustainability and waste management plan into your business plan as you proceed and include green marketing in your marketing section.

**Components of a Business Plan**

Below are the areas included in most business plans. Some sections will incorporate more detail and in some cases your business plan will include additional sections. However, this is a basic overview of what you want to include. Most significantly, you want to think through each section very carefully and visualize how each aspect of your business will work.
Table of Contents

This simply makes it easy for your readers to follow the subsequent plan.

The Executive Summary

Although this comes first, it is often written last, after you have had the opportunity to think through the various areas of your business. It is here that you provide a one- or two-page summary of your business including the reasons why you are starting it—your goals, plans, and objectives for the business, the industry, and the environment. Here you will present your target audience, marketing plans and future expectations. This is, in fact, a summary that should entice potential investors to read further—it is the single most important aspect of a business plan and one that should provide a solid, factual basis for your business to succeed. It should NOT include a lot of hype, but instead feature a realistic view of what your business will be all about. Wow the reader with your business ideas rather than a lot of superlatives or vague promises.

Industry Analysis

Researching this section of the business plan is a marvelous way for you to bone up on the industry, whatever it may be. Here, you describe the state of the industry at present and how your business will fit in. Also, describe how your green ideas can make an impact. By showing your knowledge of the industry, you will demonstrate that you have done your research and know what you are getting into. In addition, you’ll want to show how the future looks in the industry. A bleak picture for upcoming years may start you questioning whether this is the right business to go into at the present time.

Business or Operational Overview

Here, you will provide a comprehensive overview of your plans for the business. How will the business operate? What kind of business structure will you have? What resources will you need? Where will you be based? For example, you will operate the business from a home office in Traverse, Michigan, or a 3,200-square-foot warehouse just outside of Detroit? Explain the way your products will be made and distributed, how you will provide your services, and/or how you will interact with customers. Will they drive through and order from a clown’s mouth or sit with your highly trained sales staff and select high-end items by appointment only? You can also include in this section how your business operations will be eco-friendly and sustainable. If you have a waste management plan, this is one place where you can work it into your plan of action. Demonstrating how your business will be ecologically viable is a big plus. Today, finding greener ways to implement business practices will be applauded by potential supporters.
**Marketing Plan**

The marketing plan is an important aspect of your overall business and one that requires you to pay strict attention. How will customers, clients, and other businesses know about you, your products, and your services? What type of research and consumer marketing will you be doing to determine your best areas for sales? All types of marketing efforts should be included here. Gather as much background information as possible to support your demographic research. Finally, explain your plan for reaching the audience. Will you advertise? Use direct mail? The internet? Special promotions and coupons? If you have media contacts or know of publicists that will help you spread the word, also include that information in this section. The mere process of writing the marketing section will get you motivated to work on this important area. You can promote green marketing possibilities here as well, focusing on word of mouth and means of spreading the word that require little to no use of fossil fuels and energy expenditure.

**Competitive Analysis**

This is obviously a very important part of the business plan. As much as you’d like to “trash” your competitors, you need to take the high road—or have a professional approach. Discuss all of your direct and indirect competition (meaning other similar businesses that could draw customers away from your company). Provide information on their businesses, including their prices along with areas in which they do well and areas in which they are lacking. Finally, use the information you have gathered on your competitors to show what you can improve upon and what will bring customers to you. This is your competitive edge and what separates the successful entrepreneurs from the wannabes. You can also include green ideas here that will make you more sustainable than your competitors. Again, your goal is not to go green simply to create a competitive edge, BUT it doesn’t hurt to show that you are thinking in a direction that, perhaps, some of your competition is not.

**Management Team**

If you are all alone, then this is a brief overview of why you are the man or woman for the job. A few paragraphs should do it, recounting your applicable business experiences. No, lenders and investors do not really care about the bake sale you ran in middle school or your Boy/Girl Scout awards—they want to see that you have some business background, particularly in dealing with clients and customers, since most businesses are centered around interpersonal relationships. Finance is another area that will spark their attention, along with bringing good ideas to fruition. Here you can include your environmental endeavors to date, as well as your applicable business skills and background. If you have other people going into business with you, this is where you list them; include a short bio and show exactly what they will bring to the business.
Financial Plan

Another biggie, this is where you “show them the money,” so to speak—or more specifically, how you plan to manage and utilize the funding that you get to launch, run, and show a profit from your business. Here, you will include all the financial information from starting up your green business to the projected profits. Use any charts and graphs necessary to illustrate how money will come in, how expenses will be handled, and what profits will ensue. Let your accountant help you with this part and try not to exaggerate or get carried away. Inaccurate financial projections are among the primary reasons why many businesses fail. Be cautious, conservative if necessary, and show estimates of how you will build your business.

It is also very important to make it clear how much funding you are seeking from any given lender, what the money will be used for and who else is backing your endeavor. While you may not have anyone else lined up, it is always a very good sign if you are putting up some of your own money. Lenders like to see that you are at least taking some of the risk.

You may also include supporting material at the end of the business plan along with your resume and any additional financial documents that support the business plan.

Reviewing Your Business Plan

Before showing anyone your business plan, review it very carefully and do some rewriting. You want the plan to answer all of the possible questions that anyone could
pose about the future of your business. If you cannot answer all questions posed, it means you have areas that you have not thought through. Reading your business plan a couple of times should afford you the opportunity to tie up all loose ends and make sure everything is included for a reason and all potential stumbling blocks to a smoothly operating business have been addressed.

This is where some business owners call in a consultant, or at least look for some guidance if they intend to use the business plan to accrue financing. While you can, and probably should, write your own business plan, you may want someone to review it and perhaps tweak it a bit to make it as eye-opening to potential investors as possible. Before hiring anyone, make sure they have some expertise in business plans, particularly in your genre, whether that is in retail, service or a manufacturing business. You also want someone who has good listening skills and hears what you are trying to say in your plan and not someone who is going to change everything to their way of thinking. Remember, this is your business so don’t let someone steer you away from your goals. Another option is to have business owners whom you know personally give you some feedback. This should come from people you know well and trust.

In addition to the business side of your plan, you can work your way through all of the realistic environmental possibilities that you foresee in the short and long term. What goals can you aim for, not just for your business, but for the planet? How will being green affect your accounting, profit margin, and marketing? These are areas

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**SCORE!!**

While starting up a business and writing a business plan, you might want to look for a mentor to advise you. SCORE “Counselors to America’s Small Business” is a nonprofit association that helps entrepreneurs such as yourself get started and grow a small business. The nationwide company provides free mentoring with SCORE (which stands for Service Corp of Retired Executives) volunteers, who are working and retired executives with experience and background in numerous types of businesses. Founded in 1964, SCORE volunteers, who now number over 10,500, have helped business owners all over the country and continue to do so on an ongoing basis. Based in Washington, DC, and a part of the Small Business Administration, SCORE can be reached at score.org, where you will find a wealth of information, or by calling (800) 634-0245 or (703) 487-3612. They’ve helped eight million small businesses get off the ground, so it’s very likely that SCORE can be helpful to you.
you’ll want to consider as you design a green business plan. Remember, the key is to carefully manage the “traditional” moneymaking aspects of your endeavor with the ways and means of doing things in an environmentally efficient and beneficial manner. In short, many companies design, make, and sell clothing successfully for a profit. Your business can do the same thing, using sustainable, organic materials, plus eco-friendly packaging and methods of marketing.

Your Sustainability Plan

One of the best definitions of “sustainability” is “meeting the needs of the present without compromising the ability of future generations to meet their needs.” With this in mind, you can consider drawing up a sustainability plan for your business so that you can demonstrate how you can operate without impinging upon the future of the planet . . . . or by having a very minimal negative impact, such as that caused by carbon emissions.

Among the components of a sustainability plan, can be your plan for power and utilities, which might include renewable energy. Alternative fuel options, energy conservation efforts, and working with local energy providers who have incentive plans or even rebates for saving energy may all be part of your overall energy use strategies.

Another area you might include is your means of production. How can you make products in a manner that minimizes waste and utilizes recycled or organic goods? Are you using eco-friendly materials in what you build? If so, include this in your sustainability plan.

Transportation and commuting is another area that you will likely want to touch upon. This includes ways in which you and your employees commute to and from work, as well as how you ship products. Ride-share programs, biking, and public transportation can all be encouraged to transport your staffers to and from the office while bio-fuels and hybrid vehicles can move your products from place to place in a greener manner.

Your sustainability plan should touch upon all areas of your business and demonstrate your plan for doing things in a greener way.

Your Waste Management Plan

Included within your sustainability plan, or written separately, should be a discussion on how you plan to dispose of waste. The idea is to avoid landfill by:

- Recycling
Consider Composting!

Composting is a process in which biodegradable material (which includes garden and kitchen waste) is converted, through the presence of oxygen from the air, into a stable material that can be applied to land and soil to improve and enrich the nutrient content. Another way of looking at it would be turning garbage into fertilizer for gardens, rather than sending it off to landfill.

Most compost is made up of food scraps, although some types of food and garbage will fit the needs of composting better than others. It is an excellent way of recycling natural ingredients. To learn about composting, check out The U.S. Composting Council at compostingcouncil.org.

- Reusing
- Redistributing waste

The term “waste” can be rather broad; one company’s waste is another company’s gold. For example, some of the waste products found on the grounds of New Belgium Brewery’s facility are reused by other companies to make fish food. Another company utilizes algae found on New Belgium’s 25 acres to help make bio-fuel. Likewise, discarded metals and woods have been reused, reshaped, and remodeled to become avant-garde furniture. Your waste plan can also include how you will save resources, which includes water conservation, landscape, and use of agriculture.

In the end, your plan should cover all aspects of your business and explain how debris and other types of “waste” will be collected, recycled, salvaged, and disposed of in your company.

Personal Loans

If you are not looking at commercial lenders, or do not feel that you have either sufficient collateral or a credit rating that will impress such lenders, you can always look for a personal loan.

Some advisors will tell you that the ideal place to look for a personal loan is from the people you know best, such as family or friends. Others will recount horror stories of relationships gone very wrong. The key to borrowing from friends or family members is to make sure that they honestly respect your plans and ideas and are not
doing it out of guilt, pity, or for any ulterior motive. You do not want to be beholden to anyone. You want this to be treated as a business deal and any lender should know that you fully intend to pay them back. You also want to borrow from people looking to help with financing without strings attached. If your great uncle decides that he has a great way for you to run the business, his loan may not be worth his conditions. Only you can discern whether or not the relationships in your life can withstand financial implications.

If you are looking for outside investors, you will want to polish that business plan and practice answering all possible questions regarding the plan. You also want to do your research and get to know something about the lender. You might find an angel investor to back your business venture. “Angels” are wealthy individuals who invest in projects to become wealthier and to be involved in a business. In many cases, they are retired or semi-retired and are investing, in part, because of their interest in the subject matter. For example, those who sink money into a new theater production aren’t always expecting to see a bundle of money in return. They do, however, enjoy the theater. Therefore, if you can find someone who is a wealthy car enthusiast, you might be able to get some backing from then for your auto-detailing business. Perhaps you’ll find someone who shares your concern for the environment and wants to support your development of an eco-friendly line of goods. Typically, finding such investors comes from looking around, networking, and seeking out a person, or a few people, who want to get in on the ground floor of a business that touches them in some manner. The only real concern on your part (besides having your attorney draw up the proper paperwork) is how much involvement the person wants to have in operating the business. While someone in this capacity may be a source of wisdom, you do not want them taking over your goals and dreams.

It is important when dealing with anyone lending you money that you have a clear understanding of the involvement of that backer in your business. You could have several backers, all of whom meet with you periodically to brainstorm. Conversely, you could have only a silent partner—or several—who lends money but is not at all involved in the business.

Determine which is best for you.

**Government Financing**

The Small Business Administration (SBA) at sba.gov should be your first stop when looking for assistance from the government. They specialize in helping small-business owners who are getting started, offering many loan programs. Of course you can also look into government programs designed to support the type of business you are starting. For example, if your business is transportation, the United States
Department of Transportation offers short-term lending programs. Should you be starting up a business that deals in land, you could contact the U.S. Department of Agriculture, which has a Business and Industry Guaranteed Loan Program. Of course you can also look for state government programs. There are also plenty of green incentives, such as the EPS’s SmartWay Transport Partnership, which provides funding to trucking companies that are doing what they can through alternative means or technology, to save fuel, and minimize pollution. Consider your business and your industry, and determine which branch of the federal or local government might be inclined to support your efforts. If you are especially innovative and have created some new type of technology that generates significant attention, you can apply for a Small Business Innovation Research (SBIR) program award. They provide $1.1 billion in funding to small businesses on the cutting edge of technology. While it’s not easy to attain, if you’re tech savvy, you might find the backing you need from the SBIR.

In addition, a number of states have financing programs, some of which are designed to support job growth. Rhode Island, for example, has had a program called Job Bank, which will provide loans to qualifying companies that can provide a certain number of jobs. Local small business development centers might be able to help you find funding.

The EPA can also help you find green building programs in your state, such as the Energy Efficiency Financing Program from the California Energy Commission, or the Renewable Energy Trust, which is part of the Massachusetts Technology Collaborative. You’ll find other green building programs at the EPA website (epa.gov).

Also check with trade unions in your industry. Often they can direct you to potential sources of funding.

Other Options

Yes, there are venture capitalists, typically looking to provide capital for startup or expansion to a hot up-and-coming business from which they can see returns of 25 percent and up in the not-too-distant future. Unlike an angel investor, however, a venture capitalist manages a fund and is looking for suitable investments for that fund. An angel investor is an individual who, while also looking for a suitable investment, is looking for a personal opportunity. Venture capitalists, on the other hand, will likely have no business experience in your industry, but are focused, more like a bank, on rate of return. Unlike a bank, you can get money quickly from a venture capitalist; however, as noted above they are looking for a high rate of return on their investment while a bank is looking only for you to pay back your loan on time, with interest.
There are a host of green venture capitalists that look to finance businesses involved in renewable energy, clean air technologies, clean water technologies, and so on. In fact, the number of “green” venture-backed businesses has risen sharply in recent years from only 74 in 2005—involving roughly $600 million dollars—to nearly 225 in 2007 at a value of $3 billion dollars. One place to explore such green VCs is the Eco Businesslinks website at: ecobusinesslinks.com/green_venture_capital.htm.

Financing on Your Own

For those of you who have saved up with a business in mind, you can start off with your own little nest egg. Many small-business owners have set aside bonus checks or income from outside sources (like the $10,000 you won at the track) to become entrepreneurs. Often, such personal savings along with a small unsecured bank loan can be enough to get the business off the ground. Unsecured loans are much easier to obtain than business loans, assuming you have a good credit rating and a record of paying off debts.

It’s ill-advised to put your house up as collateral on a home equity loan to start a business since, despite your plans, a business idea can fail and you don’t want to risk your home. You can sell off other assets to raise money or, should you be a retiree rattling around in a large home, you might opt to downsize to a smaller house and use the money from the sale of your larger home to start up a business. There are many possibilities.

Personal credit cards are yet another common source of startup cash, although you have to make sure you watch your expenses very closely. You don’t want to skimp on equipment and tools, but when you’re paying with plastic, it can be tempting to buy equipment with all the bells and whistles when just the basics will do. There are also business lines of credit that you can take out. However, these, which work like personal credit lines, are more typically used for repairs or special projects and not for startup costs.

In the end, the bottom line is that you evaluate the various means of coming up with the green to go green. If you show that you have a solid business plan plus the enthusiasm, knowledge, and smarts to take a business idea from the drawing board to fruition, you can, with some searching, find the necessary funding. And remember, you will draw supporters and possibly even backers by being green, so let your plans for sustainability be known.
In this chapter we’ll take a look at some of the ways in which you can work your environmental plans, goals, and ideas into your business and, while being green, can also make some green.
Making Money

Can green businesses make money today? A resounding “yes” is the answer you will hear from a rapidly widening audience for green products and services. The growing concerns of the nation, and the world, are echoing through almost all industries and being heard loud and clear by millions of business owners and consumers. No longer are environmentalists a subcategory or niche, they are in the mainstream, whether it means living off the grid and eating organic or trying to recycle as often as possible and saving paper by printing on both sides of the page, people are taking environmental concerns more seriously than ever before.

Of course making money is about more than being green. It’s about knowing what the public wants and how to price products and/or services accordingly. It’s about marketing (coming up later in the book) and customer relations. In a highly industrialized society with amazing technological advances, even the most basic crafts maker needs to stay one step ahead of the learning curve when it comes to being on the edge of customer wants and needs. He or she needs to know what is coming around the bend, so to speak. Additionally, business owners must be able to find that balance between making money and staying green. “I wanted to help conserve the environment,” says Thanh Yua, founder of Selfish Box, makers of gourmet lunches in Redmond, Washington, who found that the greener packaging was three times more costly than traditional packaging. “Even though green was important, making money was more important because I wanted to get the business off the ground So, I had to find the balance between the cost of being green and the ability to make money. I had to find my own lines and boundaries,” explains Hua. She would go on to use her years of technology training to save money in other areas of the business by using technology to have a paperless office, control the inventory, and run the kitchen more efficiently.

Many entrepreneurs will have that same important decision to make when it comes to where money should be spent and costs need to be cut. Good entrepreneurs are those who weigh all of the factors, use their own expertise, and make the right choices. In fact, business owners who have made the wrong choices, such as cutting on product quality to spend more on advertising, have learned the hard way that you need to know where and when to save and where and when to spend. Green can be costlier in some areas, while saving you money in others. As many entrepreneurs have discovered, you need to know how to create a balance.

Knowledge

“We initially went to natural product shows, looked at the market and tried to decide what would be a good product,” says Nell Newman, of Newman’s Own
At that time the natural foods industry was a lot younger and there weren’t that many really good organic food products available. It was not like today where you can get anything. Finding a manufacturer that could make a product that was willing to be certified organic (meaning properly labelled, organic foods being segregated, etc.) wasn’t a necessity but we knew certification was coming so we decided that whatever plants we used should be certified organic,” adds Nell, referring to the Organic Food Act of 1990, which was not implemented when Newman Organics started, but would be in the near future. This meant staying ahead of the curve and when certification was later introduced, Newman’s Own Organics were already there.

Making money is largely about knowing your business inside and out. When you talk with Kelly LaPlante of Laplante Organic Interior Designs, about organic design, Nell Newman about organic foods, or the folks at Clif Bar about health bars they, like many entrepreneurs, can go on and on. It’s that knowledge about their industry (and the environment) that puts them at the forefront of the green business evolution. It’s been repeated many times in many industries, but there is no substitute for knowledge.

Once you know your business thoroughly, you can tell quality products from sub-standard, fair prices from rip-offs, and what items will make money for you from those that will not. Talk to the owner of a typical small business, especially a mom-and-pop shop owner who has been in business for 25 years, he or she can talk about every piece of merchandise in the store and tell you why it’s there and who buys it. That’s the first key to making money knowing your business inside and out.

**Pricing**

Yes, organic still costs more than traditional and you may need to charge more for some green products largely because they are not produced in mass volume. On the other hand, you need to stay within a price range that suits the product or service and the needs of your customers. Once upon a time, products and services typically fell into a somewhat standard price range. Perhaps a sweater would be purchased for anywhere from $25 to $100 depending on the quality and the fabric. Today, however, you’ll find sweaters selling for $50, $300 and $3,000. Why? Because there are markets for very discerning customers as well as the mainstream market. There are a wealth of fabrics, leading designers, and a buying market for items priced at a wider range than ever before. Sure there are common household items that fit within basic parameters and fall into standard competitive pricing, but the options, features offered, and various other details have significantly increased the possibilities.

You need to look at your market carefully and determine what customers are looking to spend on your products or services. You will need to determine carefully your
costs to buy and ship products or make products from various materials and then ship them. Remember, labor costs need to be included. If, for example you are making body lotion and your sum total of costs for the product (including labor, packaging, and shipping) comes to $5 per bottle and you are selling it at $8 per bottle, you are making $3 per item or a 38 percent mark-up per bottle. If organic body lotion bumps up your cost to $4 per bottle, you can move your price up to $9 per item. If people in your demographic group are used to paying in the $6 to $10 range and are sold on the advantages of organic products (from your green marketing) then you are fitting right into that prospective price range. If, however, you are forced to pay more and need to charge $13 per bottle, you might price yourself out of the comfortable and familiar price range of your customers.

Pricing is about:

1. What customers expect to pay
2. What you need to spend to purchase products, or on the materials to make products
3. What you can afford to charge
4. What the competitive prices are
5. How you can justify higher prices if necessary.

The old notion of supply and demand will also work its way into the equation at some point. If you are the only business in an area selling organic wine then you can charge a little more. If there are three other stores selling organic wine, you will have to stay very close to their prices or justify why your prices are higher. If you are charging a dollar more and donating that dollar to a wildlife fund, you may do fine with green-minded customers. If you are charging a dollar more and have no justifiable reason, you may lose customers to your competition.

It’s intriguing that today many businesses are on the cutting edge of environmental products. Therefore, as they ponder what move to make next, you can step in and grab a market share with a truly well-presented, well-marketed greener version of a product, which is exactly how GreeNow, the company that started renting out biodiesel generators and forklifts for events, movie shoots, and construction jobs, got their green edge on the competition. In addition, pricing was certainly in their favor.

“With the rising price of gasoline, biodiesel has become a more cost-effective option,” says Aaron Levinthal, co-owner of GreeNow.

Today, pricing is also about customer trust, comfort, and personal service. Personalized service may not show up on expense reports, but it is a money maker, especially in an environmentally conscious world where “back to the basics” means back to interacting with other people. The faceless companies and faceless department stores are once again giving way to personalized, low-tech communication. Yes, you
Shortcut to Better Pricing

You can use the following three-step guideline to make pricing products a little easier:

- **Consider your production costs.** This not only includes the materials, but the labor, salaries of your workers, rent, and everything else you need to spend to stay in business.
- **Review the market.** Look at the buying market (your customers) and do some research to determine what they are willing to pay. Also look at the prices your competitors are charging. Then see what makes your product or service different.
- **Set guidelines.** Determine the absolute minimum you can charge for a product or service without losing money and the absolute high you could charge that would still be reasonable. Then look to set a price somewhere in between depending on how in-demand your product or service is at the moment—you can always have sales and lower prices or raise them slightly if you don’t think you will lose your customers.

can charge a little more because of the “hello” factor, meaning you are actually greeting customers and interacting with them. Even if you are running an online business, you can use the interactive capabilities of the internet to stay in touch with your customers through specialized e-mailings, discussion boards, online newsletters, questions and answers, blogs, and by being transparent. Personalized attention can merit slightly higher pricing and typically costs you little or nothing.

You can also do as Clif Bar does and make your commitment to the environment very clear and highly visible. Note your green initiatives or community involvement and activities on your website, in your promotional materials, and in your newsletter.

**Inventory**

In the retail world, you need inventory to survive, or so they say. Online sites ship from fulfillment houses and many businesses send directly from the factories with whom they have distribution agreements. Even actual bricks-and-mortar stores are finding ways of curtailing inventory to save on money and the emissions created by ongoing shipments being trucked back and forth. Several smaller stores offer
customers kiosks and other means of viewing additional products that they may not have on hand but can ship directly to the customer’s home. This allows for making the sale while not having to stock a huge inventory. It combines the catalog and web sales concepts with the retail store, where the most popular products can be featured. You may notice some of the popular sneaker outlets, among other stores, have smaller yet successful locations in the malls. They pay lower rent, spend less on energy costs, and still sell products at the same rate. In short, you can find ways to minimize inventory and space and still maximize profits while doing less damage to the environment. It’s a win-win situation.

As for your “green” inventory, only you can judge how well your client base will respond to green choices. You might elect to carry all organic products, or, like The Green Office and many other businesses, offer green choices wherever possible but maintain customers by meeting their needs with traditional products as well. This keeps customers coming back and at least some of their purchases are of the greener variety. As is the case with many businesses today, you can donate to 1% for the Planet or another worthy green association—there are many reputable ones from which to choose so do some research. In some cases, inventory simply means utilizing the space you have carefully. Jennifer Doob, who runs her homebased business, Wild Dill, selling a wealth of organic products for kids, has her inventory on hand. “I buy a lot from local Bay Area manufacturers and keep my inventory in my home,” explains Doob, referring to her garage and attic that are filled with products. “It’s been a challenge, but so far it works. I also try to ship in boxes that have some recycled content and use recycled paper and packing peanuts made from corn,” adds Jennifer.

**Smart Tip**

If you are storing inventory in your home, seek out the optimal location depending on the needs of the product. While clothing is fairly easy to store, items that are heat or cold sensitive must be in areas in which you can adjust the temperature if necessary. Also look for dry locations. Portions of inventories have been lost in basements that flood. Know your home and where your merchandise will be best kept safely.

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**Ordering from Green Suppliers**

WalMart made a point of letting suppliers know that they were instituting a scorecard, so to speak, to determine who was green and who was not. In essence, this was their way of selecting to work with green suppliers. Depending on your industry, you, too, can opt to work with greener businesses by reviewing the business practices of your potential suppliers. No, they may not be 100 percent green, but if you see that
they are using renewable energy and/or recycling and reusing older products, you can
determine that the supplier is of the same mindset as yourself. Look at other factors
when making up your criteria, including packaging and modes of shipping. Are you
getting tons of Styrofoam packing peanuts or are items shipped with recyclable newspa-
paper or organic packing peanuts? If you review the various areas in which suppliers
could be greener and set up a list of criteria, you can then select those who meet at
least some of your criteria. This could include the use of:

• organic products
• recyclable materials
• nontoxic predicts and processes
• means of packaging
• means of shipping.
• waste of excess product materials
• waste of excess packaging materials

and more.

You can also work with local manufacturers and cut down on the shipping and sub-
sequent carbon emissions. In addition, you are supporting your local market.

Manufacturing
Environmentally-Friendly Products

From baking to making toys, clothing, or other products, if you are in any type of
manufacturing business, you will want to think green, organic, and sustainable to stay
in step with the times. In fact, in many industries, stricter regulations are now in place
to make sure you tow the line. However, there is always more you can do.

It is, therefore, up to ownership and management to launch topdown initiatives
that motivate research and development teams to make environmentally friendlier
products high on the priority list. In a very small operation, you are the top, middle,
and lower management. The trick is to evaluate the products you make and determine
whether there are organic, natural, or greener alternatives that will not sacrifice the
quality. Until recent years, for example, most organic food products were high on nat-
ural ingredients and low in taste. Today, however, as evidenced by Newman’s Own
Organics and Clif Bar, the quality of food is at the same level, or higher, than your
“less” healthy alternatives. Likewise, organic cotton has made an impact in the cloth-
ing industry and lightweight, sleeker LCD computer screens have taken over from the
energy-burning CRTs to the delight of their users. Yes, energy efficient and natural can be welcomed with open arms, as long as you meet the same standards that an energy and non-organic society has gotten used to.

“The question you want to ask yourself is: How close are my products to nature?” notes environmental journalist Trish Riley, author of The Complete Idiot’s Guide to Green Living. As she points out, you want to determine how sustainable your products are going to be, meaning that if they are made with synthetic chemicals, you are not yet there.

Energy-efficient appliances, earth-friendly cleaning products, organic wines and beers, and clothing made from bamboo are all evidence that whatever you are making, there is a greener alternative. Bio-plastics are now more readily available than ever before and recyclable plastics made from corn starch, pea starch, and vegetable oil are all making headway in the manufacturing of numerous products. Check out bio-plastics magazine (bioplasticsmagazine.com) for more on the evolution of plastics in the new eco-friendly world.

Then there is Teko Socks, a Colorado-based company that makes socks from organic cotton, wool from a family farm in Tasmania, and/or recycled polyester made from old soda bottles and industrial waste. And if it’s French pastries you crave, how about some organic ones from Miette, a small completely organic pasteria in the eco-friendly Ferry Building in San Francisco. People in a very wide range of industries are taking a new perspective on common products, evaluating what functions need to be served, and then determining if there is an alternative way of making them that is organic or recyclable. If not, is there a way of reusing the product? Ingenuity is very much appreciated when it comes to new uses for old products.

Along with creating and using earth-friendly products, materials, and/or ingredients, you’ll want to keep chemicals out of the manufacturing process. From the building industry to the print industry, toxins and chemicals used in the manufacturing process are major contributors to air and water pollution.

Growing It Yourself

While manufacturers can create their own greener products and materials, businesses in the food and beverage industry can grow some of their own ingredients, cutting down on costs,
while making sure that the ingredients are natural. “We grow our own herbs,” says Thanh Hua, of gourmet lunch makers Selfish Box. Hua estimates that the business saves $30 a week just on basil. Many businesses have added their own gardens, which cuts down on shipping and assures freshness. The well-known Eli Zabar’s grocery store and restaurant on the upper west side of Manhattan is a prime example of using urban rooftop space for agriculture. Upon the sprawling roof, you’ll find commercial-size production greenhouses with raised beds filled with greens, herbs, and tomatoes. This is the urban answer to growing and selling your own produce, much as farmers do with their own farm stands. Even businesses that do not cater to the palate have embarked on the trend of growing natural foods. For example, Pangea Organics, makers of organic skin care products, have a garden where workers plant and grow their own foods for their fellow employees to enjoy. The land is given by the company for the express purpose of farming—talk about sustainability!

### Sustainable Packaging and Packing

Packaging today is designed to be easily disposable, which means “let’s just toss it,” to most people. Unfortunately more than half of that packaging (40 million tons annually) gets tossed rather than recycled, and ends up in landfill, in our oceans and water-ways, or your nearby city dump. Sustainable packaging minimizes energy as well as the disposable effects of packaging. The idea is to use packaging that has a closed loop, or a cyclical lifecycle, going from nature back to nature. Materials used for sustainable packaging need to be biodegradable, made from recyclable and reusable materials and created through eco-friendly methods. Using recycled materials presents an opportunity to recover valuable raw materials, thereby allowing you to create economic value by eliminating the basic extraction and processing steps.

Before launching a business, an entrepreneur can review exactly where packaging material will come from and what types of materials can be used to create such a recyclable and sustainable lifecycle. From a product standpoint, you will need to determine the type of packaging that will keep products fresh and safe during shipping or during a shelf life. You will then need to see if you can create such eco-friendly alternatives that will meet those needs and/or eliminate energy waste in the process. Some possibilities are more practical than others, depending on the product(s) in question. For example, you may be able to utilize biodegradable plastics, rather than those that are petroleum based. Other solutions may include using materials with recyclable natural fibers or corrugated cardboard. You’ll want to look at packaging as it goes from your company as a manufacturer all the way to the end consumer.
For Curtis Packaging, a 163-year-old luxury packaging company based in Sandy Hook, Connecticut, the move to sustainability became a conscious initiative. “About five years ago we decided to look at trying to green the business and be more environmentally friendly, as well as remaining luxurious, so we dubbed ourselves ‘luxuriously responsible,’” explains Don Droppo, Jr., Vice President for Sales and Marketing.

Today, some five years later, Curtis has made a major commitment to renewable energy and now has a 100 percent carbon neutral footprint. But it was not just in their operations that they made an impact. “In luxury packaging, people use foils, and that’s not recyclable, so we came out with a new product called Curt Chrome, which is an environmentally friendly alternative to foil. It’s metallic-based ink and 100 percent recyclable,” explains Droppo of one of the many environmentally sound products now available from Curtis.

It is this type of eco-friendly packaging that other companies have also taken into consideration. Even a giant company, Procter & Gamble, for example, has introduced new rigid tubes for Crest toothpaste that can be shipped and displayed on shelves without boxes. Another, company, Aveda, makers of beauty products, uses bottles made from 95 percent recycled materials, while beauty giant Estee Lauder created a new tube design that comes from 80 percent recycled aluminum.

Along with packaging, you can also move to greener packing materials in an effort to replace some of the landfill favorites such as Styrofoam peanuts. First, consider that most packages have an overabundance of packing materials and simply by limiting such excess you can be more eco-friendly. Today, there are biodegradable packing peanuts available, made from grain sorghum and corn starch. Besides being 100 percent biodegradable, they are static free and not affected by oil prices. There are various brands available including Puffy Stuff, which is quite durable and cost effective (see puffystufftn.com). Soft foam, sold in rolls, is also made from corn starch and soybean oils. Then there are real peanuts or, at least, peanut shells. And don’t forget pea straw which can actually be replanted by whomever receives your packages. Shredded thin wood shavings, known as excelsior, are also good natural packing materials, as are shredded newspapers or shredded cardboard boxes. You can also use rolled up (non-shredded) newspapers placed into the packaging around the content.

The point is, packaging materials can be both eco friendly and cost efficient. You need only to take the time to think through both packaging and packing as you build and create your business. “Think about each step of the process,” says Dan Kennedy, owner and creative force behind Long Island-based chocolate makers, Chokola’j. In fact, Kennedy not only utilizes recyclable packaging but recommends ways to reuse the packaging on the company’s website (chokolajchocolate.com) such as using the linen-embossed chocolate boxes to save recipes or note cards.
Hybrid cars and trucks, the use of biodiesel, and local suppliers are among the ways in which shipping can be greener. Additionally, following Clif Bar’s lead and making sure your distributors are close to your retail locations can help cut down on carbon emissions. Chokola’j buys as much as possible locally to limit the need for shipping and thus reduces fossil fuel expenditures. They also buy ingredients directly from local growers and farms to cut out the need to ship first to distributors and then to the company.

Other recommendations include shipping small items by bike messenger rather than using a van to take a folder or small package across town. You should also make sure your vehicles have fully inflated tires, which saves on fuel. In many instances, you can avoid shipping completely by using electronic means of distribution rather than printing catalogs, reports, or long texts and shipping them all over the place. “We use an online catalog to cut down on the need for printing and shipping,” explains Dan Kennedy of Chokola’j, adding that it is also a cost savings, which allows for spending a little more money for organic products.

Along with recycling packaging and reusing packing materials, another, less talked about means of greener shipping is to recycle pallets. Shipping pallets, also known as skids, are the flat wood structures that keep products and materials stable when being loaded by a forklift or similar type of device. Actually, they can also be made of plastic or metal. “We take part in a pallet recycling program,” notes Dan Garrido of the Washington-based Inu Treats.

Since wood is an environmentally sustainable product that is easily recyclable and reusable, the most common pallets are made from wood and can be utilized and reused frequently through a well-managed pallet recovery and reuse program. Under their Rediscovered Wood Certification Program, the Rain Forest Alliance Smart Wood Program, uses a GP logo on the pallets as certification. Essentially, this program keeps the pallets in use. For more on the recycling of pallets, visit smartwood.com and type in “pallets” to find their pallets recovery program.

Greener Service with a Smile

To this point, the focus has been primarily on retail and manufacturing businesses. Service-based businesses can also start and maintain a green mandate. The key is in how you perform the service that you are selling. If you are teaching dance, karate, or aerobics, are you using a facility that uses some natural means of heating, cooling, and
lighting or an HVAC system that utilizes a lot of energy? If you are detailing cars, operating a cleaning service, or painting homes, are you using nontoxic chemicals and/or paints? If you are catering, are you using hybrid vehicles and organic foods? The point is, the tools of your trade, the office in which you work, and your means of commuting can all be potentially green. Some service providers are finding that they can utilize the web to offer uploads and downloads as alternative ways to provide information. From webinars to online instruction, services that might have once meant energy spent on transportation and wasted paper or other goods can now be in the hands of clients or customers via the internet. You can even adopt paperless billing practices as you look for ways to green your service-based business.

**Greener Commuting**

Ridespring (ridespring.com) helps businesses with car pool scheduling and also encourages alternative means of transportation (to driving) by giving away prizes. You can also consider means by which you can encourage employees, and even customers, to opt for a bike, a car pool (or van pool), or a brisk walk to your facility rather than driving. Don’t forget there’s also mass transit as an option. While it’s not green unto itself, 25 people on a bus means 25 fewer people driving individually to work.

Many businesses encourage biking to work, while other companies even pick up all or part of the tab for mass transit. For those who might prefer carpooling, if only they didn’t feel lost without accessibility to a car during the day, you can consider Zipcar (zipcar.com) as a means of having cars on hand for employees who need them. The two companies, each provide innovative means of having a car available when necessary. Unlike a rental car, which is costly and needs to be picked up at a specific location, a Zip car is a low-emission or hybrid vehicle parked near a work location. Your employees, can have a card as access to the vehicle for use when necessary. You can outline how this system of determine what is and is not “necessary” will work. Your company then pays Zipcar an hourly rate that includes gas, insurance, and maintenance. It’s far less expensive than owning

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**Smart Tip**

Did you know that in Amsterdam, 33 percent of all trips are made by bicycle? In Copenhagen, 33 percent of all commuters use bicycles to get to and from work. In the United States, however, where more than 100 million Americans (or nearly 33 percent of the world’s population) own bicycles, it is estimated that about 1 percent bike to and from work. The potential for alternative commuting is there, but incentives need to be provided to get people out of their vehicles and onto those bicycles.
and operating a car, and much more convenient than renting.

While you cannot make people use alternative means of transportation, you can certainly provide rewards, such as hours off, free lunch, or other perks for those who excel in finding alternative ways of commuting.

Teaming with Likeminded Companies

Small businesses today do not have to go it alone. Along with the Small Business Administration, many entrepreneurs find local chambers of commerce and business or civic-minded associations very helpful. Even cooperatives, linking several businesses together to buy in mass quantity as well as share resources, can benefit the entrepreneur. In the green business environment, entrepreneurs with likeminded goals and similar environmental concerns can team up to create community initiatives or take action and make a difference on specific projects. Non-competitive businesses can benefit one another in various ways, including the use of office space, shared advertising costs, and even shared shipping if the companies are close to one another. Why not double up that which is being shipped in one truck rather than have two separate half full trucks taking a similar route?

There are plenty of worthwhile environmental causes that can bring businesses together. Explore those in your area. Several merchants, for example, might start recycling programs for computer cartridges or other specific items that can be brought in by customers. Perhaps you can initiate and sponsor a farmer’s market selling locally grown produce. There are plenty of possibilities.
People Power
Your Green Team and Your Community

There are a few key groups of people that make up a successful business. In this chapter we will discuss two of them, your employees (who we’re calling your “green team”) and your community, which is made up of those in the geographic area around your business and in the industry in which you are a part. Two other groups are your suppliers, whom we
discussed briefly earlier, and your customers (probably the most significant group since without them you have no business). We will return to customers in the next chapter when we discuss marketing, promotion, and advertising, since that is how you will reach them.

Starting a new business gives you an opportunity to surround yourself with like-minded people. Since most small businesses start out with only a few employees, and sometimes they are primarily freelancers or part timers, you can discuss your vision for an environmentally-friendly business and see if they nod in agreement, flinch, or look at you as if you have two heads. Today, it’s very likely that your hiring pool of possible employees will have a fair number of green-minded candidates. However, while this can be a plus, you still want to balance the equation with good people who know how to put in a full day’s work. The ongoing advances in technology has created a dichotomy whereby you will find people who thrive on high-tech tools and can accomplish an amazing amount of tasks in a shorter time than ever before. Conversely, you will find those who use technology to take short cuts or as a means of “looking busy.” Your goal is to weed out the doers from the posers.

Hiring employees means not only looking at resumes and credentials but actually checking those references and even using online background checking services if necessary to make sure someone really is who they say they are and has done what they say they have. It is advantageous to have a pre-application form available to gather a lot of basic data before interviewing and hiring people. Review an application with your attorney before handing it out since, by law, you cannot ask certain questions. For example you can ask if someone is over the age of 18, but not someone’s exact age. You also need to be careful when interviewing people to avoid personal questions and to stick to the subject at hand: working for your company.

Assessing the personality and professionalism of any prospective employee is not always easy. It is, however, important. The individual’s traits and ability to interact with others can help you bring on board quality personnel at any level. Environmental concerns, as discussed by a candidate, can indicate a level of thinking beyond the common “me” syndrome that is also so pervasive today. Of course you need to determine whether or not someone is genuine or greenwashing you. You can get a general idea by bringing up sustainability and environmental concerns (at a basic level) during an interview.

It is also advantageous to have a printed or electronic employee manual in advance. This
allows you to cover the ways in which you want employees to carry themselves when they work in your company. Within such a manual you will want to include subjects such as:

- tardiness
- vacations
- personal and/or sick days
- any benefits you offer
- policies regarding theft, drug or alcohol use, sexual harassment, etc. (have an attorney look over this part to make sure you do not open yourself up to any liability)
- security
- parking
- use of office or company facilities, etc.
- grounds for termination

You can include whatever you like, which also means that perks, bonuses, or any other incentives can also be part of your policies. Clif Bar, among other companies, allows for a few days off each year, with pay, to do volunteer work. “We called it the 2080 Program, since that’s the number of hours people typically work in a year,” explains Kate Tørgerson, head of Clif Bar Public Relations. Employees may volunteer with pay for several hours per week. Clif Bar and other businesses also have company-wide employee initiatives, such as cleaning up a local beach or park. This, too, is counted as part of the employee’s regular hours if he or she participates.

Some companies offer incentives, whether sales based, green based, or simply for perfect attendance. As a perk, New Belgium Brewery gives each employee a bicycle after one year of employment. Whatever you choose to do in terms of green incentives can be part of your employee manual. You will then want to have each employee sign that they have read the material and save their signatures. This way, you can claim that you had the regulations and policies in print and the employee read them, in the event that there is ever a dispute between employees and management.

### Establishing a Green Business Culture

Of course before you can hire people, you’ll need to know specifically what you are looking for. This means not only defining specific positions within your business, but also having an idea of your business as a whole. If you want your staff to fit into your company’s culture, you will have to define that culture in advance. This means evaluating, or re-evaluating, your beliefs, particularly your environmental concerns.
You might want to write down your idea of what the company’s culture should be so that you can more closely match likeminded employees to your company vision. This way you will be better able to attract the kind of people that will be most comfortable working for your business. In some cases, you will find people with the knowledge and skills that not only fit your business but also cross over into environmental concerns. In other cases, you will find individuals with more passion than knowledge and experience. Sometimes taking raw resources and shaping them, as in the case of training bright and ambitious newcomers, can be very rewarding. There are many people today who are anxious to make an impact on the environment but need some lessons in exactly how they can do so. This may be your opportunity to impart your knowledge upon the next green generation.

As you build a staff with whom you feel comfortable, you will also build an image that draws in shareholders, stakeholders, and customers and that fits comfortably within your business culture. Remember, most businesses present a personality of sorts, or an image, that transcends the place of business and includes the products, reputation, and service provided.

You’ll find many job candidates sporting impressive credentials with degrees or diplomas from excellent universities. However, in many cases the green component of their job will be added later, through your training. Today, we are all learning greener methods of doing many jobs and positions like “sustainability director” are evolving as we all continue around an environmental learning curve that is expanding. Almost every day, there are new breakthroughs regarding environmentally safer, cleaner, or energy-efficient ways of doing jobs and making a difference. In some cases, they are actually old ways of doing things that are being revitalized with new vigor and passion. Either way, there is steady news evolving on the environmental front every day.

I Now Pronounce You Business Partners

There are many husband-and-wife teams starting up businesses today, as evidenced by our list of 22 green businesses back in Chapter 2. Most of these couples share the idea of creating a sustainable business. It is, however, important whenever teaming with someone—spouse, or not—to recognize each other’s strengths and weaknesses. This will allow you to determine who best fits which role. For example, Daniel Kennedy of Chokola’j, the organic candy-makers, takes the lead when it comes to the creative side, using his years of experience as a chef, while his wife Susan uses her business know-how to handle the business side.
Keep in mind that it is easy to post the word “green” on your business and on your website, but you’ll be much further ahead if you plant and nurture a green culture within your workforce from the start. So, take the time to evaluate what your business culture will be.

A Green Team

While we are using the term “green team” as a means of simply defining employees of a green business, some businesses, as they get larger, actually put together a specific green team to assess the manner in which the business is being run and review possible ways of being greener. Such teams are usually the result of volunteers stepping forward. With support and guidance by management and ownership (that’s you), a green team can research and report on various means of improving sustainability within a company.

A successful green team taps into the areas of expertise of the various individuals. For example, someone who heads up production, facilities, or management might look into waste management alternatives, while your shipping department can research and present alternative shipping methods and your marketing department can consider greener means of marketing. In nearly every business someone (typically the office manager) is in charge of office supplies, so he or she could be setting up a greener purchasing policy for such supplies.

In a small business, two or three people can wear various hats. “I had to learn about marketing, promotion, shipping, and handle all areas of a business,” explains Jennifer Doob, of Wild Dill. Likewise, Kelly LaPlante, of LaPlante Organic Interior Designs, also had to juggle the various areas that it takes to run a business. “I was fortunate to have a lot of good people around me including friends who were supportive and wanted to help out,” says LaPlante.

Whether you have an actual “green team” or, as a very small business, you simply establish some basics for yourself and your partner to follow, you’ll want to cover the environmentally significant areas including:

Dollar Stretcher

Hire experts when necessary. While this doesn’t sound like a way of saving money, it is. First, by bringing in someone with expertise to handle your bookkeeping or public relations, you are freeing up your time to focus on what you do best. In addition, the mistakes that people make trying to handle areas of business in which they have no background or experience can add up to significant losses . . . plus you then need to have a professional to come in and clean up the mess. Therefore, money well spent is, in the long run, a dollar saver.
• waste reduction
• energy conservation
• water conservation
• recycling
• establishing green purchasing policies
• alternative means of transportation
• use of natural resources
• renewable energy

Not only can working together as a green team make a significant impact on the environmental future of a company, but also it can, and often does, serve as an excellent means of team building. Employees who are dedicated to environmental issues will also feel a much stronger commitment to the company if they take on an active role.

Even in what is primarily a one-person operation, you can surround yourself with your own green team of sorts. Carolyn Deal of Sum-Bo Shine natural baby care products teams up with several likeminded individuals who help her with graphics, technology, and other areas of expertise. “I handle the operations, but I work with several people some of whom are mentors, such as a chemical engineer who has an MBA and provides support and expertise in the field,” explains Carolyn, who has connected with people who share her interest in the environment and provide various levels of help and support through their networking efforts.

**Smart Tip**

Green people. “Surround yourself with people who share your ideas and your vision,” says Dan Garrido of Inu Treats organic pet snacks, who hired a marketing company that shares his green mindset. While everyone you work with may not be as dedicated to the environment as you are, it is advantageous to look for printers, designers, copywriters, and even lawyers who “get it” and have a sense of what you are trying to accomplish by being a green business. “It makes it much easier if you are on the same page,” adds Garrido.

**Green Protocol**

The key to a green business is starting with the right mindset. If everyone in a company thinks about recycling from day one, then it becomes standard everyday practice within the company. Likewise, if everyone sets their computer on sleep mode when they are away from their desk for a short period of time and turns their computers off when leaving their desks for a longer time span, it simply becomes the way things are done. The reason we are in this global warming crisis is largely because for decades we, as a nation, have continued to engage in the same bad habits. Throughout the 20th century we found better, quicker, faster, more expedient ways of building things, of getting places, and of doing business. We dazzled ourselves with innovation after innovation without regard for the impact such
energy-expending technology was having on our planet. We became a wasteful society by our own indulgence.

Today, a new business can right some of the mistakes of the past by invoking policies that take a step back. Part of the environmental mindset is the idea of going back to nature, a place where we were prior to such tremendous industrialization. This doesn’t mean getting rid of technology, but simply learning how to curb our excesses. It means bringing nature back into vogue by utilizing natural resources wherever possible, such as rainwater to clean your office and water your plants.

If you set up the ways and means of doing things in a greener manner from the start, you will build eco-friendly habits. You will also have an advantage over long-standing competitors in that you will not need to take time and effort to rectify the mistakes of the past and rethink previous ways of conducting business.

Building a Collective (or “Team”) Mindset

Policies, guidelines, and protocol (green or otherwise) can put you on the right path, but only a motivated team, working together, can make a business flourish. While we will discuss the importance of social responsibility later in the book, it is at this point (discussing employees and employers) that we will begin discussing the ways in which you will build the unity that makes a company move forward together. Remember that achieving a comfortable work-life balance makes both employees and company owners happier. Therefore, here are a few suggestions that might help you build a cohesive unit from the onset. After all, why wait to boost morale when you can get it going with a jump start from the beginning.

1. **Ask for suggestions.** By listening to ideas from all sides, you bring everyone into the equation. While you can’t use every suggestion, you can show appreciation for each one and explain why it might not work at present. By implementing some of the better suggestions, you let employees know that they, too, have a sense of ownership in the company, which is huge for morale.

2. **Schedule company activities.** This is where you can implement some green activities if you choose. Whether you schedule activities that are simply fun, or benefit a neighborhood or charity, it is this kind of team building that can bring people together outside of the work atmosphere. From a company picnic to a corporate retreat, such activities create a bond among people.

3. **Offer family-oriented benefits.** The trend in businesses today, large and small, is to recognize that employees do have families and that you can better motivate your employees by offering some family perks. From on-site day care for larger companies to simply providing some flex time or half days for family events,
you can score points with your employees by acknowledging their commitment to their families. You should also provide adequate time off for maternity leave or should an employee be adopting a child.

4. **Include incentives.** Who doesn’t like a bonus? While you may be in no position as a new company to give out cash bonuses or bicycles after a year, you can certainly find smaller, low-cost perks for your employee of the week or month, or your top salesperson. Whatever you decide meets your criteria for rewarding someone on your staff, it is a plus to have some incentives (even a free lunch) to encourage your employees to do their best. Smaller, but meaningful incentives can prove most effective (unless you are giving something to everyone). This way the employee feels good, while you are not promoting a high level of competition that can backfire and impinge upon the desired team atmosphere.

5. **Find new settings for meetings.** While you won’t be able to do this for all meetings, you can hold some of your get-togethers in places outside of the office or board room. Find a location where you can take in the great outdoors or go organic at a health-friendly restaurant. Every neighborhood has some interesting locations that can serve the purpose. If not, perhaps you’ll find some in or around your facility. When Jerry Manuel took over as manager of the New York Mets, he moved their usual pre-game locker-room team meeting out onto the field and the team started winning. Look for that change of venue to keep people interested. You can also look for unique places for company parties.

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**Your Community**

Most businesses, with the exception of some home-based businesses, are part of the larger community in which they reside. As soon as you let it be known that you are open for business, you will generate interest from possible customers, the media, and your fellow business owners. While fitting into your neighborhood of choice means adhering to local laws and ordinances, it also means trying to establish a good reputation, even if your community is the cyber world.

Although many businesses quietly fit into their communities, you can opt from the beginning to do more. As we’ll discuss further in the marketing chapter to follow, you can increase business by being an active participant in community activities and by initiating some activities of your own. New Belgium Brewery’s Bike-ins, which are drive-in movies on their lawn, draw environmentally-conscious crowds. Other companies sponsor community fairs, festivals, concerts featuring local performers, sporting events, and other activities. Sponsoring or even just taking part in neighborhood picnics or street fairs are other ways in which to make your presence known within the community.
You can also team with charitable groups to sponsor neighborhood activities. For example, one of the many Clif Bar programs focused attention on the Wrapper Brigade. The program was launched in order to reduce the number of energy bar wrappers ending up in landfills and to help kids learn about the importance of recycling and reusing waste materials. The program included schools, community groups, and even individuals who earned money for charity by picking up wrappers. While the money goes to charity from Clif Bar, the actual wrappers are fused, woven together into a strong material, and used to make handbags and other products. This is one of numerous examples of working with the community to raise the level of awareness about the environment while contributing to charity.

Following the lead of a large company, smaller businesses can take on initiatives much like that of the 150-year-old Wells Fargo, where team members in various parts of the country contributed more than 12,000 volunteer hours to support environmental causes, which included cleanups of beaches and habitat-restoration projects. Other projects included learning to install solar panels on affordable homes in the San Francisco area and promoting the development of eco-friendly homes by sponsoring Build It Green’s home tours in Northern California designed to support green building practices.

In every community, there are ways to support and promote green practices and policies. For example, in Washington, DC, the Acme Paper & Supply Company has teamed with the House of Representatives catering service to provide environmentally-friendly food service products. This includes biodegradable products such as cups, plates, and bowls, all made from natural substances that will biodegrade within 30 days.

Numerous companies today are looking at ways of greening their community while enjoying the publicity and name-brand recognition such environmentally positive action brings. In addition, returning to the subject of employees, you can attract a better pool of talent through your community efforts and involvement.

Some companies consider their community to be a much larger area—the nation, the continent, or beyond. Patagonia, for example, a leader in outdoor clothing and gear (known for being at the forefront of environmental activities) has launched numerous initiatives, such as Freedom to Roam, a long-term initiative, in conjunction with other companies and conservation organizations, dedicated to re-establishing migration wildways for animals between protected areas throughout North America. Since many animals rely on migration for survival, the goal of the program is to help these animals by finding, establishing, and maintaining connecting corridors and reconnecting isolated patches of wildlands in an effort to allow animals to roam, migrate, and survive in a very industrialized world.

While far-reaching efforts such as those of Patagonia and other businesses that have grown in size and earnings may be out of the reach of brand-new businesses, there are things you can do at the local level to start out on your community efforts. For example, you might:
• **Get involved in local green activities.** Donate your time and even some sample products to worthy environmental activities in your area. If you can’t spare the employees, or are simply a one- or two-person operation, you can always donate some of your profits to worthwhile environmental groups and/or organizations.

• **Team with other companies.** You need not go it alone. Together with a non-competing business, you can pool your staff and resources to make a greater impact on a green project or activity. Often, businesses can compliment one another by providing their own services, products, or the expertise of their staffers.

• **Launch your own initiative.** Run an event of your own for an environmental cause. This could be anything from a bike-a-thon to a cleanup to a dinner to raise money for a local cause. Clif Bar has hosted a number of benefit dinners such as one for the Community Alliance with Family Farmers (CAFF) and Good Humus Land Preservation Project, which raised $20,000.

• **Do pro bono work.** Utilize your skills and those of your staffers to do some non-profit work by donating your time to a good environmental cause. Train people with whom you work to also use the necessary skills to better the environment.

• **Provide education.** Whether you conduct neighborhood seminars or online webinars on the environment or visit schools and talk to school children about sustainability, you can make a difference with green teaching. You can also educate your fellow business owners with talks and demonstrations of what you do to create a greener eco-friendly environment. New Belgium Brewery, for example, gives tours of their facility to other business owners. One of those tours included some of the top brass from Wal-Mart.

Another example of an educational program is the Green Power Challenge developed in Bellingham, Washington. It is designed to educate local businesses on how and why to purchase green energy in their community. What started as an educational program has apparently proven to be quite successful—the EPA rated Bellingham one of the top green cities in the nation.

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### The Homebased Business

Most homebased businesses are essentially one-person operations, or family run, with some freelancers or part timers helping out. It is, therefore, harder to build a green team, but very easy to implement your own green plans and policies. Some entrepreneurs work comfortably from their homes, limiting the use of excessive
energy and utilizing reusable and/or recycled products whenever possible. Folake Kuye, who started WeWe Clothing from her home in early 2008 tries to maintain a green environment. “We try to be paperless and I don’t use a lot of lights. In fact, we don’t use heat or air conditioning very much either,” says Folake, adding that her husband is a “hippie” and that they also try to eat organic as much as possible.

Along with being green, working from home means staying abreast of the local zoning laws. In some cases you may need a variance to set up your business in a residential community. Even if you are on the right side of the zoning laws, you’ll want to maintain a low profile with your neighbors. The number of homebased travel agents, consultants, and other types of service providers has increased in recent years largely because of the internet and the ease of wireless communication. Business owners can sit quietly at their computers with their phones nearby and conduct business from the comfort of their own homes and no one is the wiser. The problems begin to emerge when trucks start making regular deliveries to a residence, cars start taking up the neighborhood parking spaces, and strangers are parading in and out of your home. These are red flags for neighborhood associations. They also may indicate that you, as a homebased business owner, have either outgrown your home office or selected a business that might simply not work from your living room, such as a fast food restaurant.

Only low-traffic businesses with minimal inventory (unless you have another location, such as a warehouse) will work from the home.

One of the biggest plusses of a homebased business is that you can eliminate commuting, and use alternative means when you have to go out to a meeting or an appointment. And you can be as green as you like, saving money on energy by opening windows and utilizing older furniture and equipment in innovative new ways.

From a business perspective, one of the hardest aspects of running a business from home is sticking to your business and not getting sidetracked. With that in mind, here are some basic home business tips:

- Make sure you establish an area of the house as your office, whether it is a dedicated space or part of a larger space. Look for an area with minimal distractions.
- Make sure you have good lighting and a comfortable workspace from which to run your business. You can use CRT light bulbs for saving energy.
- Set up your workspace so that it is optimal for accomplishing what you need to accomplish. An advantage of being homebased is that you can set everything up as you wish.
- Set up a dedicated line as a business phone so you don’t have your kids’ friends calling while you’re in the middle of doing business.
- If you will be seeing clients or customers, set up your business in such a way that you have access to a side or back door (or can enter directly into your
workspace through the front door). The point is that you don’t want everyone traipsing through your entire house.

- Have your business licenses in place and all of the necessary papers filed with your local business office. Working from a home office does not make you any less of a real, legit business, which also means Uncle Sam will be watching you.
- Find ways to keep yourself motivated and working. Set up a schedule and/or a To Do list and stick with it. Don’t let yourself get into bad habits because you are not in an office building, office park, or retail location.

Homebased businesses are on the rise. If you find you are outgrowing your space you can always seek out office space. Until then, you can thrive if you are well-organized and self-motivated.
It doesn’t matter what type of business you are in … if people don’t know about you, you’re not going to make money, plain and simple. In this chapter we will discuss some of the basics of marketing a small business and explore ways in which you can try to stay on the green side of marketing and promotion. Being a green business, you already have an
advantage in that you are marketing yourself to a very receptive, environmentally conscious audience.

To benefit from marketing, you will want to go back to all of the market research that you have done in your efforts to zero in on a specific demographic group, or groups, that will be most receptive to your message. You can refer back to Chapter 3, Customers and Market Research, for more on the subject. Since marketing, promotion, and especially advertising, have a cost involved, as a small business owner, your job will be to look at your budget carefully and determine where you can get the most bang for your buck.

Marketing is a broad based term that covers all manners of reaching out to the public, which is why people often make up a marketing plan. This includes your product, service, pricing, projected audience or target demographic group, and how it all fits together. It is the plan that you make, based on your research, to form a brand, an image, build an identity, and reach out to your buying audience. Marketing is driven by data and research from the recent past but focuses on your future. Your analysis of the industry, the competition, pricing, buyers, and so on will reveal the key components to the overall picture, and like a puzzle these will make up your marketing efforts.

Effective marketing means reaching the right crowd, not necessarily the biggest crowd. It also means reaching your target audience through the papers they read, websites they visit, radio stations they listen to, TV shows they watch, and so on. Reaching 50,000 potentially strong prospects to buy your goods or services is better than reaching 500,000 people in a general audience, of which only 1 in 50, or 10,000 people are going to be interested in your products or services.

Marketing Stories: The Good

The key is to know how to spend money wisely in an effort to effectively market your business. While most businesses will not reach the global impact of Starbucks,
the Seattle-based coffee empire was originally a small business, like yours. Today, roughly 40 million customers drink Starbucks coffee every day. The Starbucks story of amazing growth has been chronicled as one of the greatest small business concept stories ever.

Chairman and CEO Howard Schultz envisioned the mass commercialization of coffee, not just as a drink but also as a lifestyle. Starbucks became known as a place where people could meet, relax, and hang out, all while having a $5 cup of exclusive coffee. Starbucks marketed what was eventually known as the “Starbucks Experience” and became a leader in the industry by using such marketing strategies and opening numerous small stores in specified areas, where people would want to take a break from the mall experience, the busy work routine, or needed a place to sit while waiting for a flight or train.

Starbucks utilized more than just a great product, they sold a lifestyle. Along with great products or services, something else is typically at the root of any major success story. In some cases, other factors are even more compelling than the product itself. MacDonald’s, for example (perhaps not the greenest example), doesn’t sell the best hamburgers in the world. Sure, they are tasty, but many steakhouses typically sell a higher quality of meat. Nonetheless, the concept of buying food quickly, at low cost, and in a kid-friendly atmosphere has made MacDonald’s a household name on several continents. Like many mega success stories, it’s all about marketing.

There are plenty of other great success stories built, largely, by well planned and executed marketing efforts. Take, for example, the Ronko and Popeil Brothers companies that made millions of dollars with late-night television ads for products like the Pocket Fisherman and the Veg-o-Matic in the 1970s and early 80s, before eventually going out of business because of mismanagement and a tarnished reputation at the hands of comics and television sketches. Prior to their demise, however, the founders of these two companies (father and son) made millions of dollars through marketing that focused on late-night, low-budget but highly effective television commercials. Where do you think the term “As seen on TV” came from? Their clever marketing and “buy now” ideology made impulse buying part of the American television

Smart Tip

Figure out what would enhance the experience of buying your product or services. Would parents buy more baby clothes if they could bring baby with them and have a sing-along? Would kids come to your dental office if the waiting room was set up as a play area? Think about what can enhance the sales experience for your buyers. If you are manufacturing, think about what would make wholesalers and store owners buy from you first. Favorable return policies? Same-day delivery? Always try to focus on one step beyond what would be considered “typical.”
landscape that would later emerge on the shopping channels and those many infomercials that you see today.

**And the Bad**

Of course along with the many marketing success stories come those businesses that did not fare very well. Pets.com is one of the examples that comes immediately to mind. It is infamous among the marketing world. The online website which launched in 1998 sold all sorts of pet products to consumers via the internet. Featuring what became a very well-known sock puppet, Pets.com spent a fortune blitzing the media with TV, print, and radio campaigns in 1999 and even went out to spent $1.2 million on a Super Bowl commercial in 2000. During this time, the sock puppet generated more attention than the business. The real problem was that the dot.com bubble burst and the company, hoping to make back this vast amount of money spent on marketing in four of five years of sales, could no longer get financial backing. They ran out of money very quickly because of their overzealous marketing and advertising campaigns. Meanwhile, other competing online pet supply web businesses used more carefully planned and budgeted marketing campaigns, through online newsletters and local low-budget commercials and advertisements. In time they became part of the vast retail internet landscape while Pets.com disappeared. The marketing lesson learned from Pets.com, was, as discussed earlier, that for a new company, it is more advantageous to spend less money on smaller targeted marketing efforts than it is to blow $1.2 million trying to reach everyone once with a Super Bowl ad.

**Green Marketing**

While on the surface it seems easy to define green marketing, there are actually several components that can be part of the overall definition. Typically, you’ll find green marketing defined as: the marketing of products that are considered to be safer for the environment. Of course green marketing is more than products, but includes packaging, the production process, shipping, and so on. In addition, green marketing is also about the means of marketing. For example, an organic product advertised on high-gloss paper or sold in Styrofoam packaging is defeating the purpose. Green marketing can also be used to mean; the way in which you actually market your business, such as on recyclable paper with soy ink, electronically to save paper, and/or by word of mouth. Finally, another definition of green marketing is: the act of marketing to a
green-minded consumer or consumer/target group. Of course before you can market to this eco-savvy market, understand that green watchdog groups are quick to jump on greenwashers and strongly suggest that they change their ways.

Daniel Kennedy of Chokola’j, recommends starting your marketing efforts in a small, bootstrap manner. “Any time you start a new company, there’s always something that doesn’t come out the way you want it to. If you start small, you’ll make small mistakes instead of big ones,” says Kennedy, who used mostly word-of-mouth, viral marketing alignment with other businesses that shared their core values when starting up his tasty business.

For Carolyn Deal, whose passion for children, healthcare, and the environment led her to launch the Atlanta-based Sum-Bo-Shine natural baby care products, starting off small meant going to AmericasMart, Atlanta, Georgia. This combination trade show/market featured a combination of home accents, home furnishings, and personal and family products for retail buyers and wholesalers. From there it was off to other such shows, such as the Natural Exposé in Boston, where she could sell her goods to various store owners as well as to customers passing by. This relatively inexpensive means of marketing has led to Sum-Bo-Shine products now being found in stores throughout 12 states.

Dr. Stink, also known as Barry Reifman, owner of Odorzout, the all-natural, environmental way to get rid of odors, is also a fan of going to shows to promote products and look for distribution deals. “I go to different types of shows. For instance, I’ll be featured in the luxury pet shows, in the green sections,” explains Reifman. “There are shows in every industry, you just need to do some hunting and you can find them. I use the Dr. Stink character and wear a lab coat to stand out in the crowd. At the end of the show, people won’t remember meeting Barry, but they will remember meeting Dr. Stink. It’s all about making an impression,” says Reifman.

David Anderson, founder and publisher of Green Options, points out that since “green” itself is not a demographic, you need to look for what it is your market wants and then think green in terms of that market. “You really just have to find the psychological or the sociological things . . . the little triggers that people don’t necessarily think about all the time,” explains Anderson. The point being that it’s much harder to sell people on a broad, global term such as “green” or “global warming” than it is to appeal to them specifically by focusing on what they are looking for from a product or service. Sure people want to think green or learn about global warming, but it is a large, vague concept. In other words, the greenest car in the world basically means nothing to someone who doesn’t drive or has no interest in buying a new car. However, if that person is looking to buy a car, he or she is far more interested in cleaner engines, biodiesel, and hybrid cars.
Of course green marketing follows the “do as I do” philosophy, meaning you need to be genuine and back up your green marketing efforts. After all, if you are claiming to be environmentally conscious in your marketing, your actions need to back your words.

Marketing can also include educating your customers in how you (and they) are working to better the environment. More and more, businesses are taking the opportunity to print (in non-petroleum-based ink) information about how and why such activities and products are good for the environment. If people understand why they are recycling and why they may be spending a little more on a product because it is organic, or greener in some manner, they are much more likely to want to be involved.

All in all, green marketing is ripe with opportunities to spread the word about what you do and how and why your products or services can benefit the environment. It is about utilizing greener means of marketing, which may mean opting for electronic catalogs instead of the printed versions or finding other ways to minimize the amount of paper promotional materials you use. It is about a point of view, a mindset, an attitude, and a consciousness that is permeating our culture. Consumers are entering a greater awareness than ever before and as a business owner, you want to tap into that awareness for the sake of your business and the planet.

**Having a Plan**

Your marketing plans, including your promotion and advertising, will evolve through several phases, some of which may overlap. These phases are predicated by the various objectives. For example, in the beginning you will want to introduce your business, define your brand, and promote (and advertise) your products or services. Along with all of this, you will want to market the fact that you are passionate about the environment. Some businesses try to establish who they are even before introducing specific products, while other companies look to establish name recognition while presenting a line of products or selection of services. The way in which you present your business, your brand, your products, and/or services as well as your environmental commitment should be spelled out in a marketing plan, which can be officially written up or unofficial, but clearly communicated to those in a position to make such marketing and promotional efforts a reality.

You will want to think ahead, beyond your initial foray into the business world. “I’m always working on new products,” says Nell Newman of Newman’s Own Organics. “It’s a grow-or-die industry so you should always have something up your sleeve. For us, the most recent were the peanut-butter-filled Newmanos, the tea, and our pet foods,” she says.
What type of promotional items will interest your target market? If, for example, you want to market your products to the 18 to 25 demographic group, you will look at the promotional items and messages that they want to hear. If, however, you are trying to market your services to an over-40 crowd, you will use different promotional and advertising messages.

Let’s start by considering some promotional options. One popular means of getting your business out there is by putting your company name on promotional items, such as T-shirts, cloth or canvas bags, cups, or a host of other items, most of which can be purchased from relatively inexpensive bulk distributors and made of green materials. Products such as cloth bags and cups can be advantageous as they replace environmentally unfriendly paper and plastic bags or Styrofoam cups. Giveaway items are a means of advertising as your customers wear or carry around your company name.

Other than tangible goods, you can also give away free downloads and other electronic freebies to be cost effective. Discounts and coupons also can be a means of catching the attention of potential customers; you can use recyclable paper and soy ink for printing coupons.

Another marvelous way of promoting your business is by using your expertise in a given field, as well as ways in which people can benefit the environment. Such low-cost promotional ideas include:

• volunteering to speak at seminars or conferences.
• holding your own seminars or lectures.
• writing articles for local publications, newsletters, and/or websites in your industry.
• starting a blog about your business and perhaps your green ideas.
• writing a book about your business, your industry, and/or how you have gone green. Gary Erickson, the founder and owner of Clif Bar, wrote a book called *Raising the Bar, Integrity and Passion in Life and Business*—the story of Clif Bar & Company.
• promoting your business in discussion groups and chat rooms.
• doing interviews for the local media, including radio, television, websites, newspapers, and magazines.

“We travel all over the world doing health lectures and seminars, promoting healthy skin care and our products,” explains Shelly Hiestan, who, along with her husband Denie, founded Electric Body Skin Elixar. The result is that they are getting
numerous distribution deals in spas and health clinics and building a global presence.

The key to effective promotion is to do something, say something, or give away something that generates attention, while not costing you much money. The Hiestans, for example, are firm believers in healthy skin care products, and Denie, a health consultant, has worked long and hard in the field to develop the products that they sell. Likewise, Nell Newman learned about growing natural foods as a youngster and has great passion for the subject having learned all about what goes into the foods we eat. Opening an organic food business was, therefore, based on her own strong commitment to organic foods. You’ll find that it is much easier to promote your green business if your marketing message comes from the heart.

As for how to promote your green business practices; most business owners will agree that it is advantageous to focus on what you have done, rather than make promises about what you will do in the future. Businesses have learned the hard way, with a host of negative publicity, not to make promises that they may not be able to keep. “The best thing people can do is be true to their values, don’t greenwash, but also don’t be afraid to be too green because everyone and their brother is saying they are green now, and you’ll want to differentiate yourselves,” says Chris Bartle of The Evergreen Group LLC, involved in the buying and selling of green businesses.

Trade shows are a great way to promote your goods, as well as to network and make concrete deals. Almost every industry has trade shows, and in some cases, general shows such as AmericasMart or area home shows, which attract a variety of business owners. Paying for, designing, and setting up a booth can be costly, but very effective at the right shows, so do your research. Likewise, look for environmental fairs and similar gatherings where you can be seen sporting your green goods and/or services. Prepare the necessary literature and other materials, including green business cards (made from recyclable materials), and be well prepared prior to attending such shows.

Demonstrations of products and services are a marvelous means of promoting what you make, sell, and do. Numerous health food stores introduce new items with in-store demonstrations, while massage chairs in offices, malls, and at other locations draw customers for brief back and neck massages, promoting spas and legitimate

Smart Tip
You can look for trade shows by industry, state, or country at biztradeshows.com, which even lists green shows. You can also look at local calendars and event listings for your industry by doing a search for trade shows in your area. If you find listings of last year’s show, find out who presented it and contact them for information about the next show. With due diligence you should be able to find shows far enough in advance that can benefit your business. You can also go to tradeshows.com, which is a portal for trade show information.
massage businesses. The point is, seeing is believing. Toy manufacturers love to have their products spinning, flying, or bounding around in toy stores where kids can see the hot new items in action. Supermarkets have in-store food samples from their distributors. At malls or other popular locations, in-person demonstrations can be effective.

There is also the concept of free samples, especially when it comes to natural or organic foods. Inu Treats, makers of all natural goodies for pets, started out at the street fairs in Seattle, giving away treats. This allowed them to do some test marketing and make some modifications based on the overall canine response. Within a couple months of giving out free samples, store owners were asking about carrying the treats.

In the course of setting up your promotions, you’ll want to pay close attention to several key factors, including:

- **Your costs.** Make sure you can afford to give away discounts, coupons, freebies, or promotional items. Stay within a realistic budget.

- **Time of year.** While your business may not be “seasonal,” most businesses do have peaks and valleys. Plan promotions accordingly. You’ll want to draw customers at peak times of year, and/or do special promotions to increase business during the slower times. This will depend on your business. For example, no matter how good the promotion, a ski school will be unlikely to draw many customers between June and August.

- **Your schedule.** Regardless of the time of year, you’ll want to have definitive beginnings and endings to most of your promotional campaigns. This will help you measure your effectiveness and plan accordingly.

- **Your competition.** Be aware of what your competitors are doing to promote their products and services and keep pace.

- **News and events.** Businesses have their own news and events, which can range from introducing a new product to upgrading from 15 percent wind power to 65 percent wind power. Promotions can also be in line with what is newsworthy in your business, as well as within your industry. For example, in the automobile industry, if you are selling cars and a brand new hybrid makes its debut, you may want to plan a promotion in conjunction with the manufacturer and the debut of the new car.

### Public Relations

There are publicists and there are green publicists, working with more electronic press releases and less paper. Greener PR firms are becoming easier to find, operating in an environmentally friendly manner and sharing your goals for sustainability. Not
only are they trying to save their own energy expenditure, but working to promote your green endeavors.

Of course not all new entrepreneurs can afford the prices of major PR firms, green or otherwise. Many PR firms ask for large monthly retainers, and many do not generate enough results to make such fees worthwhile. Therefore, you need to look for a publicist or PR firm that can work with you, understanding that you are a new business and that your funds are limited. Several PR firms, including Orca Communications and Sally Sheppard PR, were helpful in finding new up and coming green businesses to feature in the 22 green businesses highlighted in this book.

There are also many things small business owners can do to promote themselves and generate publicity on their own. Few business owners actually take the time to reach out and generate publicity even by simply sending out press releases. Many business owners will say the same things:

I don’t know how to write a press release.
Nobody’s going to be interested in what we’re doing here.

Define Your PR Objectives

Before you start writing press releases, you’ll want to define your PR objectives. These are your reasons for generating newsworthy stories and what you are seeking. In some cases you are seeking to establish a brand, while in others it is about a good company reputation, or simply about sales. Your public relations objectives can include:

- building awareness of what your business is all about.
- establishing your brand.
- promoting an event or activity that highlights your business.
- emphasizing your green eco-friendly objectives.
- defining what makes your business special.
- presenting a unique business story (which could be how you came to start this business in the first place).
- presenting new products and/or services.

Your message will vary depending on your public relations objective. However, it’s important that there be one main message that you want to get across since mixed messages or multiple messages can be confusing.
I don’t know who I would send a press release to.
I don’t have the time to do press releases.

What business owners often do not realize is the impact of good press. A few well-placed magazine, web, or television stories can generate hundreds, if not thousands, of inquiries. The reality is that more than half of the stories you see and hear in the media are the result of good public relations.

Today, green press releases are far more prevalent. They are sent to publishers, editors, producers, and others electronically. Of course they still need to have the impact of a traditional “in-print” press release. The concept behind a press release is providing the media with a story focused on something newsworthy about your business. The reasoning behind a press release is to gain free publicity in the media, rather than simply paying for advertising. While people do buy millions, if not billions, of dollars worth of products from advertisements, the same is true from media stories, including articles in print and coverage on television, radio shows, and on the internet. The two big differences are:

1. You save a lot more money if you can generate press on your own (rather than just spending money on ads, which, very likely, you will also be doing).
2. The news comes from someone else. A journalist, reporter, news writer, or content provider writing about your business presents a more subjective third party approach than advertisements.

**Press Releases 101**

Press releases are not all that difficult to write and can generate immediate attention for a new business. The goal is to promote your own company news within the short (typically one to one and half page) press release. With a little practice you, too, can write a good press release, and if you visit many business websites (especially those of larger, established companies) you’ll find press sections, which often have some of the company’s press releases available to read. You can also check out websites like PR Web for numerous samples of press releases indexed by industry. Another option is to look at your word processing program. Many software programs, such as Microsoft Office, include press release templates. If you’d prefer, you can look at a couple of samples that we’ve included at the end of this chapter. Use existing press releases that you find as templates to follow as you write your own. Note the ones that draw your attention. You’ll immediately see that some get to the point immediately, while others do not “grab” you. Some are written in a reader-friendly manner with easy-to-understand terminology and not industry jargon.
The key to writing a good press release, especially one that will be sent electronically, is to generate attention with a good title and a good opening paragraph that succinctly includes the most important aspects of your story. Keep in mind that editors, producers, and freelance writers get numerous press releases.

Personally, I receive at least three or four everyday and on some days about a dozen will show up in my inbox. I hit delete on those releases for topics that I do not write about. Essentially this means that the people sending them did not do sufficient research. You should look for editors, writers, and producers who handle the industry that you are in. You need to have a targeted media list, meaning a list of contacts that meets your business needs, such as golf magazines and website editors if you are selling golf apparel. I also delete those press releases that do not give me a clear indication from the title or the first few sentences of what they are about. Remember, time is limited for those receiving many press releases at once.

Formatting a press release is simple. Use a familiar standard 12-point font such as Times New Roman or Arial and double space. Avoid anything fancy including colors. On the upper left side, print: FOR IMMEDIATE RELEASE. Also include all contact information on each page of your press release. If you print the release, use company letterhead so you will have your full contact information there.

Then it’s time for your headline, which will be in larger type, and printed directly across the top of the press release. It is one of the more important aspects of the press release because you want to grab the attention of the reader. The headline could be in the form of a question, a statement that reveals part of the news, a quote, or a statistical fact. Use something that you think will make readers stop and want to read more. Don’t try to be too cute, too offbeat, or too cryptic in your message. Yes, you can be clever, but in a manner that does not take away from the message.

Under the headline, you can use a sub-headline that reveals a little more information about your main marketing message or answers the question your headline has posed. The subhead should be used to provide more information that generates additional interest from the readers. Of course you don’t have to have a subhead at all.

The first paragraph needs to grab the reader by making your message sound exciting without using a lot of “hype.” No, your product is not the greatest thing ever. It does, however, have some important qualities that make it unique, such as being the first organic toothpaste or a new hybrid car that gets incredible gas mileage. This is where you highlight what it is that you want everyone to read about. What will make readers stop and read? What will make the TV viewers pay attention? What will have the web surfer bookmark? In two or three sentences you want to make your message clear and to the point, and you want to write in an uplifting manner. Again, avoid hype.

The next paragraphs are where you explain the who, what, where, when, and why, like a newspaper reporter. When and why was this product or service developed, how
does it provide a solution to some problem that your customers might be having, and so forth. A new environmental cleaning service, for example, was developed because too many employees complain of fatigue and headaches from the poor air quality in their offices. By cleaning with only nontoxic, natural, and organic products, you leave an office environment with health-friendly air quality that benefits everyone. This paragraph should run about four or five sentences and tell the rest of the story. It should make the reader want to do a story on you based on new and interesting information. You can use a couple more paragraphs to continue explaining the highlights of the story, which might include the background of the product or service and/or the creators.

The last paragraph is what is called a boilerplate, meaning you can use this one over and over again. This should be about three or four sentences about your business. This is where you can mention how long you’ve been around, what you are doing that is green, and anything else significant about your company.

One of the toughest things about writing press releases is “writing short” or editing down paragraphs so that they don’t run on and on. Remember, editors, writers, producers at news programs, and content managers of websites have limited time to read each and every press release that comes in and, like me, will delete plenty of them.

Conclude the press release with a call to action and contact information. A call to action means something that suggests that the reader may want to write about (or do a story on) your service, product, or newsworthy information and that you (or someone from your company) will be available for interviews.

Of course a press release is meaningless if you do not have places to which you can send it. Therefore, you will need to research local publications, appropriate websites, talk radio stations and local, or even national, television programs. Some due diligence will find you the names of the right editors, TV or radio show producers, or web content managers. It’s important to first zero in on newspaper, magazine, TV and radio stations, as well as websites that are popular with your target audience. For example, finding a magazine or website that is popular among your target market is great, but if you are selling food or a dining experience, you then need to call or e-mail and ask for the name and e-mail address for the food editor. Zero in on the best people to reach with your electronic (or print) press releases. If more people did this, I wouldn’t get press releases for topics that I don’t write about.

Press releases could be written about many things, such as:

- launching new or improved products and services
- community involvement, such as events, sponsorships, and/or charity drives
- special recognition, such as winning an environmental award
- health and safety news and information
• contests, promotions, and special events
• results of polls, surveys, or other information that you have researched that is new and of interest to the public.
• business milestones, such as five years in business or the 1,000th customer served
• success stories regarding customers, such as thanks to their efforts a major corporation was able to go from traditional to wind power and save millions of dollars.
• celebrity involvement (which can include local personalities) who have either benefited from your products or services, or become your spokesperson.
• a unique, perhaps green discovery or invention.

A Few Final PR tips

1. If you write your own press releases, make sure to edit and proofread carefully before sending. Remember, spellcheck doesn’t catch everything.
2. Make sure your contact information is on each page.
3. If you are hiring a PR company, make sure you find out exactly where your money is going and have them provide reports on what they are doing and how much time it is taking them to do the work. You can also opt for a freelance press release writer—look at his or her work before you hire anyone. A single press release should cost between $50 and $150.
4. Save testimonials from satisfied customers, they can be included in press releases, on packaging, and so on.
5. If you have photos, several press releases, and have generated some print or online stories, you can put together a media kit. This is essentially a collection of all of the above in a nice folder designed with your company name and logo on it. These are costlier to send, but worthwhile for important clients or key potential clients. Use recycled paper. You may also include a “backgrounder,” which is a one-page history of the company.

Whether it is through press releases, press kits, word of mouth, or a combination of all of these means, generating press can enhance your business in a far more cost effective manner than advertising. In fact, often one article or mention in the news leads to another. Many companies have become widely known from articles and mentions in magazines. Pangea Organics has been featured in Entrepreneur, Food & Wine, VegNews, Time Out New York, Time, Elle, Country Home, Town & Country, Newsweek, O, Self, Jane Spa, Natural Health, Vogue, Good Housekeeping, and other publications.
Beware!
When writing press releases and spreading the word about your business in newsletters or elsewhere, don’t fall into the trap of self-indulgence. Too often, business owners can get caught up in the internal happenings of the company and think that such internal information is important to everyone else. Think about what other people will want to read. The fact that you just purchased a new computer system is not important to anyone outside of your home office. The fact that you planted and created the dazzling lawn sculptures on the front lawn of the mayor’s house that won a prestigious award is newsworthy.

Levinthal regarding the power of the web to draw business.

A website for a green business should be green unto itself, meaning a minimal number of energy-wasting activities, such as Flash and detailed graphics, which slow computers down. Additionally, your website is a great place to talk about your green efforts and encourage viewers and potential customers to also go “green.” There are numerous ways to design a site, but as a business owner, you should opt for a professional site designer, as noted earlier, so that your website has the same high quality look as your competitors’. One of the best features of the web is that a small business can have the same web presence as a huge corporation and in many cases can have a more user-friendly, easy-to-navigate website. Since there are many places from which to learn about site design, we won’t go into great detail here. Instead here are ten web tips for your new business:

1. Leave some white space on your web pages. Cleaner looks better than clutter.
2. Lose the jargon. People are growing tired of numerous companies that provide “business speak,” so give them something that’s straightforward.

Send them to as many good (targeted) contacts as possible and don’t worry about sending various releases to the same place periodically (every few weeks or each month is fine). Often persistence pays off and in some cases just letting an editor, writer, or producer know what you are up to on an ongoing basis can land you a feature article, because they see the cumulative effects of your environmental efforts and activities.

At the end of a press release, you’ll usually find the word “end” or ###, a symbol signaling the end.

Your Company Website

It’s very rare that you will find a business today without a web presence. Whether it is through one page, or an elaborate website, your business needs to be represented on the web. “We’ve picked up 40 meetings with potential jobs in the past couple of weeks since the site launched,” noted Aaron P. Levinthal, co-owner of GreeNow, who put the “green” into green events. Many business owners will echo
3. If you’re selling, provide product information on landing pages, meaning more details for each product (much as Amazon.com does when you click on a book, or another product, that interests you).

4. Highlight your green products, services, and/or accomplishments. Don’t make green promises that you do not know you can keep. Many green businesses today have sections talking about the environment and/or their products and what makes them green. Odorzout, for example, has a page on the site called “How it works,” which explains how the natural mineral Zeolites helps eliminate odors.

5. Get web visitors involved. Have surveys, polls, trivia, or anything that keeps them coming back to participate. Jennifer Doob of Wild Dill sells all-natural and organic children’s clothing and toys. With that in mind, she has a section where parents can send in pictures of their little ones. The parents will then tell everyone they know to go to the website and see a photo of their baby on the web! It’s a great, fun way to draw more traffic to the site without having to pay to optimize.

6. Use “Forward to a friend” in key areas so that they can send information about your site to their buddies and, in essence, help you do some free marketing.

7. Include content, such as articles or tips on how to do something. Even brief “Top 10” lists or anecdotes can provide a reason for visitors to return to your site.

8. Update your website often. Stale websites do not get return visitors.

9. Use some photos but don’t overdo it. Again, you do not want a site that loads slowly, thus using up more energy.

10. If you link to another business, make sure you know all about that business before agreeing to link to their site.

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**Online Newsletters**

A marvelous, environmentally sound means of marketing your products and services, as well as your brand identity is through an online newsletter. It’s not difficult to put together a short bi-weekly or monthly newsletter to your list of subscribers. You can first build your subscription base from your website as well as your bricks-and-mortar location or through your advertising and other promotion. All you want subscribers to do is provide their e-mail address with permission for you to send your newsletter. You might, if necessary, offer a discount or some small inventive for signing up, as Wild Dill does by using the following on their website:
SAVE 15%! Sign up for the Wild Dill newsletter and receive a discount code in your e-mail box for 15% off of your next order. Get the latest Wild Dill news and save!

Online newsletters are green because they do not use paper and take minimal time to produce on your computer. The key is to lay out a newsletter in such a way that you are providing more than simply ads and promotional material. Most newsletters draw interest because of their content, which need only be a couple of short, three-paragraph stories on something pertaining to your industry. Again, you can use short tips, lists, and other means of providing content that is not necessarily in “story” form. If, for example, you are selling organic clothing, you might have a list of the top five organic materials and which ones are best for different times of year. Perhaps you are selling gourmet foods; why not write two paragraphs on some organic wines that go with your foods, or include a recipe in each newsletter? You can stockpile short articles as they come to you and/or hire someone to write your newsletter. In some cases, employees are happy to provide short tidbits to fill up a newsletter or the HR department takes on the job. However you get it done, provide just enough content to make people want to continue receiving the newsletter.

Around your content, you can put all of your upcoming promotions and below your content you can advertise as you like. Remember, it need not be very long, but a newsletter should be fresh each time and hold the reader’s interest. This means writing about what’s interesting to your target market. Here are a few other tips for an online newsletter:

- **Include some green activities and information.** Your business is green so you should be able to provide some green bits of information, whether it is what your business is doing for the environment or some important environmental facts.
- **Use the name of the newsletter and your business name as the subject and “from” line.** If someone in the company is in charge of the newsletter and uses his or her name, that can be unfamiliar to your readers . . . and it may be deleted.
- **Include some polls, surveys, and other interactive means of keeping your customers involved.** Asking for feedback or suggestions is a plus.
- **Avoid anything that will cause the newsletter to load slowly, such as elaborate graphics.**
- **Include a privacy paragraph assuring readers that you will not sell their e-mail address to spammers, or anyone else for that matter.**
- **Make unsubscribing easy.** No, you don’t want them to unsubscribe, but if they want to, let them do so with a couple of clicks of the mouse. Many people
return to newsletters later on, and even if they don’t, you still want them as customers.

- Consider offering a few newsletters for people with different interests.

### Blogging

Some people love blogs and others hate them. They range from well-written content on a host of interesting topics to incessant railing. If you are passionate about the environment, a green blog is a great way to discuss your personal passion about a specific area, whether it’s cleaner energy or recycling products. Stay focused, write regular blog entries and back up what you have to say with facts and data. Good blogs draw readers. The biggest problem for some is finding the time to keep on blogging. For a lowdown on starting a blog, check out Badi Jones’s article at howtostartablog.com.

Sometimes, being a part of someone else’s blogs can generate a lot of attention, while saving you the time spent writing. Jennifer at Wild Dill sends samples of her organic children’s products to some of the blog writers who review children’s clothing and other products. This way she gets some of her products into their blogs. Look for bloggers who are writing in areas that could include your product or services. And look for green bloggers. They are always looking for new and innovative green ideas, activities and products.

### Advertising 101

Most businesses, especially new ones, need to be very careful about how they spend their advertising dollars.

Successful advertising means having an objective and reaching your target audience with the right message for the right price. Before you can create advertising copy or start determining where you will advertise, you need to consider what type of message you are trying to present. For example, will you be selling some basic and very familiar products? If so, you may want to splash your name all over the place for brand identification. Perhaps you are introducing a greener way of doing something routine or a green version of a familiar product. This will mean presenting an advertising campaign that offers the green benefits of your service or product. It is always advantageous to tout your competitive edge, which sets your service or products apart from your competitors (green or otherwise). In some cases, you are advertising a new version of a familiar product. You’ll want to emphasize what makes this version faster, more powerful, and/or greener. The point is, have a plan for your advertising.
As a new business, part of your advertising objective will be to introduce yourself... do this in a manner that will grab the attention of the reader, listener, or viewer without detracting from the message. We’ve all seen ads that are very entertaining, but we immediately forget what the product was. This defeats the purpose of advertising.

For most small businesses, advertising usually means fliers, brochures, signage, print ads, websites, and perhaps some radio. Television is costly and since advertising is most effective when done on an ongoing basis, it is very hard to afford a block of television ads unless you get a great deal, which often means a very local station at a very late night hour.

Fliers, Brochures, and More

Being green, you’ll want to consider whether you want to go the flier or the brochure route. Yes, you can use nonpetroleum-based inks and recyclable paper. However, there is still an energy expenditure in the printing process and a time factor in distributing such one-to-one advertising. Signage on environmentally-friendly materials can also be a good way to inexpensively post your message in key locations. Posters at construction sites and even signs on benches or busses can often be affordable and very effective. Make sure that you have someone with a background in graphic design to help you with brochures and even signage. Remember, your image is reflected in everything you put out to the public. With that in mind, try to maintain a consistency in the look of your ads.

Newspapers and Magazines

Small newspaper ads, or those in Pennysavers can be very cost effective. However, you need to make sure your ad is placed in the right category and concisely grabs the attention of your readers. Most newspapers are not very green, so take that into consideration. To locate newspapers, magazines, and specialty publications for advertising purposes, you can visit News Link at newlink.org. (You’ll also find radio and TV stations there as well.)
You will find that there are more green magazines than newspapers, and that local magazines can be a good place to post an ad introducing your business to the community, perhaps with a discount or incentive of some kind. Keep in mind there is typically a long lead time for magazines, so if you want to run an ad for the end of year holiday season, you should inquire about advertising rates in June or July and ask when you need to have the copy handed in. Also keep in mind the readership of the magazine. Check the circulation numbers to make sure the ad is worth the price. Look for someone with advertising experience to layout a magazine ad, since it can be very effective if done correctly.

Also, when advertising in magazines or newspapers, get tear sheets, which are copies of the ads in print to make sure it ran correctly.

The Internet

Online advertising can be highly effective, since people who are on the internet already are just a click away from your website. Of course, you need to find sites that target your potential buying market. “I advertise on mothering.com,” says Jennifer Doob of Wild Dill. “I also look for organic parenting sites,” adds Doob, who also advertises on Google’s Addwords and on Yahoo, which has a similar pay-per-click offer. Search engines allow you to buy ads that work on a pay-per-click basis and come up only under appropriate searches. If done correctly—to come up only under the key words for your products and/or services—this can draw a lot of business to your website. However, if you are not set up to sell directly and easily from your site, you may be spending more money than you will make. Therefore, only do this if you are an e-tailer or a bricks-and-mortar business with a strong web-selling presence.

Internet ads need to grab the attention of the viewer. Make sure your message is clear and to the point since people move around the web very quickly. Also make sure to be well positioned on web pages.

Radio

If you are a radio listener then you know there are two types of advertisements common to the medium. First are produced ads, which can be inexpensive to make but have a great impact, if they are clever and concise. Then there is written copy read by the DJ or talk show host. This can be less expensive
and, if carefully written, can make your business come to life. Remember, most radio personalities are good at reading copy.

Just as with most types of advertising, the trick is to advertise often so that the public gets used to hearing your company name. Although I hate the word pithy, it does define advertising copy for radio. You want to be concise, entertaining, and promote your business in a few lines with the phone number and/or website repeated at least twice in the 15 or 30 seconds of copy.

Focus on your green edge and whatever it is that makes your business stand out. The key to a good advertisement is to emphasize or accentuate the positives. What is it that your listeners want to hear from you? Are they looking for the lowest prices? Are they looking for a green alternative to a traditional product? Are they looking for a new product or service? Are they waiting for a special deal? Do they just need to know that you exist and are open for business? Whatever you are trying to say, you can get the message across in your radio ad.

However, before buying air time, look for stations, and even specific talk shows, frequented by your target audience. A product geared for the 15-to-25-year-old market might be right for a rock station, while a product bought by a 40- to 49-year-old market might be better for a financial or news talk station or a financial talk show. If you’re selling sporting goods, go for a sports station. Fit the product to the demographic audience and then see what kind of deal you can get on several spots. Typically, the more spots you buy, the cheaper the rate.

**Television**

Getting on television should be left to your publicist or the work of your own PR campaign. The idea should be for you to be in the guest seat on talk shows, especially with more and more environmental programming. However, if you want to go the TV advertising route, know in advance that it can be expensive, not only to buy time, but to produce a professional-looking ad. As with radio, you want to get your message across in a short, entertaining, or engaging manner that makes it clear what it is that you are offering and why. Again, remember the high points of your product or service. Also, because people are very quick with their remotes, you can capture more potential viewers by having the name of your business, your logo, or one of your products on screen in the opening three
seconds of the commercial. At least this way, even if the viewer hits the remote, you’ve put your product (or company name) in front of them. Too many TV-ad producers make the mistake of thinking that a viewer is going to sit there through a 20-second build-up to their product. Unless the build-up is fascinating, you’ll lose half of the viewers who are quick with their remote finger.

If you can buy time in blocks, even late at night, you can sometimes get a good deal. The problem you’ll face is that it is difficult to get the time you want and advertising during reruns of “Mr. Ed” at 2 A.M. might not get you very many customers.

Headlines

In most advertising, the headline is the key. This could translate to the opening five seconds on television or radio. The point is, in a short-attention-span world, you need to grab potential buyers quickly. There are plenty of books on writing advertising copy. You can purchase one and/or look closely at headlines and ad copy and watch television commercials with a new awareness of what grabs your attention and what does not. Put yourself in the place of a prospective car buyer for example, and see which of the many car advertisements on television would encourage you to shop for that model car. See which magazine or online ads catch your attention and make you read beyond the headline. Sure, the art of writing good headlines and enticing advertising copy takes some time to master, but you can get a jump on the competition by honing your skills with some practice and by knowing some of the basics.

Here are ten advertising headline and copy basics:

1. **Know what message you are trying to get across before starting.** Lower prices, higher quality, greener than your competitors, for discerning customers, etc.
2. **Know your target audience and speak their language.**
3. **Avoid stereotypes or anything that is not considered politically correct.**
4. **Don’t forget to focus on the sale.** Don’t be so clever that the reader, viewer, or listener doesn’t know how or where to buy your product or service.
5. **Focus on ads that are timely, seasonal if necessary, and current.**
6. **Don’t overload your headline or copy**—concise and to the point sells.
7. **Re-read copy several times to make sure it sounds, or reads, as intended.** There are many stories of advertising campaigns that were pulled from the airwaves because they were “unintentionally” suggestive or just plain offensive to someone or everyone.
8. **Be consistent.** The image or brand you create needs to remain consistent, through your design, look, tone, and message. The reason that brands must be consistent is that they take a long time to build, maintain, and evolve. This combined consistency is what builds consumer awareness of your business.
9. *Focus on a good headline.* Numbers in headlines are usually a plus, such as “10 Greener Ways to Clean Your Kitchen,” and questions tend to be popular, such as “Want to Cut 30% Off Your Energy Bills?” Play with several headlines before deciding on one. You can even test market a few with friends, family, and/or your employees.

10. *Spread your advertising dollars around.* Don’t rely on only one location, or even one medium to get your message out to the public.

When you plan your advertising campaign, start with a realistic budget and stay within those parameters. Otherwise, you’ll find that advertising costs can add up quickly. Look for low-cost opportunities and, if buying in bulk, ask for discounts on the number of ads you are running. You can always ask for 30 percent off and settle for 10 percent. It doesn’t hurt to try negotiating, especially if you are close to the deadline and their advertising space is not filled. Also, don’t forget cooperative advertising can work for you. This is where you and another business advertise together. Often manufacturers and stores that sell the manufacturer’s products participate in coop advertising programs. This saves you half the money and allows you to place more ads online or in print.

In the end, advertising can work if you are able to maintain the costs and build a campaign that generates attention. For many new business owners, low-cost publicity options will still prevail over advertising, especially if you are doing something good for the environment and spread the word. Several major magazines have green issues, including *Elle, Vanity Fair,* and *Parents,* plus numerous websites are doing green issues or adding green sections. Articles, as well as awards, TV, radio, and online interviews, or (positive) mentions in the news are marvelous ways to boost your business, as Carolyn Deal from Sum-Bo-Shine, makers of organic baby products, can attest to. “Sum-Bo-Shine Naturals and Organics were honored as the ‘Going Green Champion’” by ABC News in Atlanta, Georgia. “That was far more coverage than we could have gotten with a few ads and much less costly,” says Deal.
Sample Press Release #1

Sample Press Release, courtesy of Orca Communications Unlimited, LLC

REVOLUTIONARY NEW PRODUCTS LEAVE CLOTHES CLEAN AND THE EARTH HAPPY

—Compact Yet Powerful Washing Machines and Dryers are Turning Out Cleaner Clothing and a Cleaner Earth—

Middletown Springs, VT—February 15, 2007—The Laundry Alternative, Inc., today announced the nationwide release and debut of the new Wonder Wash Pressure Compact Washing Machine, Spin Dryer, and Mini Countertop Spin Dryer. These revolutionary products are easy and safe to use and are working to save the environment by cutting down on water and electricity usage. Although these products serve the same function as a traditional washing machine and dryer, they do it in a radical new way. The Wonder Wash and Spin Dryer clean and dry clothing in compact and affordable machines.

Responding to a growing need for affordable, earth friendly products, The Laundry Alternative has created a practical answer. The innovative machines
save consumers money, as much as $150–$250 per year. The Wonder Wash uses 90 percent less water and detergent than conventional washing machines and fits easily on any countertop. The Spin dryer can cut 5 to 10 percent of an annual household’s energy use, making this revolutionary new product over 100 times more energy efficient than a traditional tumble dryer. The Laundry Alternative is committed to creating innovative, cost-saving, environmentally friendly products that work. According to founder Corey K. Tourret, “We continuously research and develop new energy-saving laundry products. Our newest product is a spin dryer which can dramatically cut average household energy consumption, and we have many more new laundry inventions in the pipeline.”

The Laundry Alternative has created a positive reaction from consumers around the world. The Wonderwash has made an impact on the American soldiers fighting in Iraq and Afghanistan, who don’t have access to washing machines or a reliable laundry service. Each product is created with care and is inspected by a company with over 10 years experience before being released to the public. Owner Corey K. Tourret states, “One of our main goals is to provide practical, inexpensive laundry solutions to people who do not have access to conventional washers and dryers in their homes, such as apartment dwellers.”
About Laundry Alternative, Inc.

The Laundry Alternative, Inc. is located in Middletown Springs, Vermont. Created by Corey K Tournet in 1999, the company is committed to providing the consumer with innovative, cost-saving, environmentally friendly products that work. The Laundry Alternative, Inc. has been recognized by numerous media publications and continues to make an impact on consumers and the environment.

For more information, please visit the corporate web site at laundry-alternative.com

For press inquiries, please contact Kirstin Sanders, Senior Publicist, Orca Communications at (480) 363-5371 or KSanders@OrcaCommunications.com.

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ODORZOUT RECEIVES THE U.S. ENVIRONMENTAL PROTECTION AGENCY’S SEAL OF APPROVAL

—All natural odor-removal products recognized as environmentally friendly by the Design for the Environment Program—

Phoenix, AZ—January 28, 2008—No Stink, Inc., announced today their line of ODORZOUT odor-removal products has been selected as a partner of the U.S. Environment Protection Agency’s Design for the Environment (DfE) Program. DfE officially acknowledged ODORZOUT as an environmentally safe product having adhered to their strict partner guidelines that recognize and encourage the formulation of products with environmentally preferred chemistry.

ODORZOUT was selected based on the products’ blend of all-natural Zeolite minerals, which exhibits a more positive effect on the environment than conventional odor removers. ODORZOUT’s complete line of odor remover products has qualified for the DfE Program, including All Surface Granules, All Purpose Pouch, Laundry Additive Powder, Foot Powder, Pet All Surface...
Granules, Pet Pouch, Cat All Surface Granules, Cat Litter Additive Powder, and Cat Litter.

“We are thrilled to have ODORZOUT be a part of this important partnership,” commented Barry L. Reifman, owner of No Stink, Inc. “It validates what we and our customers have always known: ODORZOUT not only works to remove odors, but it does so safely for humans, pets, and the environment. We are proud to have produced our quality line of green products from day one.”

DfE commends companies such as No Stink, Inc., for their leadership in designing products that are good for their business and for the environment. The DfE Program works in partnership with a broad range of stakeholders to reduce risk to people and the environment by preventing pollution. DfE focuses on industries that combine the potential for chemical risk reduction and improvements in energy efficiency with a strong motivation to make lasting, positive changes.

About Odorzout

ODORZOUT is a line of All Natural Odor Eliminators consisting of a blend of Zeolites, nontoxic minerals that absorb and eliminate unpleasant odors. These odor removers come in powder and granule forms and contain no chemicals or
perfumes and are 100 percent safe for humans and animals. ODORZOUT is ideal to use anywhere and is offered in the following forms: All Surface Granules, All Purpose Pouch, Laundry Additive Powder, Foot Powder, Pet All Surface Granules, Pet Pouch, Cat All Surface Granules, Cat Litter Additive Powder, and Cat Litter. ODORZOUT has also been endorsed by The Queen of Clean®, Linda Cobb, who has given it her official seal of approval. Additional information provided at 88stink.com.

For more information, interviews, and/or other media inquiries, please contact Marybeth Grass at Orca Communications Unlimited, LLC at 602-896-7643 or Marybeth@orcacommunications.com.

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Beyond the physical attributes of the earth, the green culture also extends to caring for its inhabitants. Social responsibility is defined as acting with concern and understanding for other people, particularly those who are disadvantaged. For a business, it is also the awareness of your impact on the well-being of others. This extends from doing...
what is best for your own employees to improving conditions for workers living halfway around the world.

It Starts at Home

Along with health benefits, Pangea Organics does the little things, such as setting up a locker room facility where employees who bike to work can change when they arrive. As noted earlier, New Belgium Brewery gives employees bicycles after one year to encourage alternative commuting. A growing number of companies now encourage employee volunteering with pay, and many set up volunteering opportunities in conjunction with local hospitals, organizations helping underprivileged children, and so on.

By respecting your employees and incorporating a culture that emphasizes doing for others, you build a work force that cares. Surveys, such as one by Sirota Survey Intelligence, have shown that employees who are satisfied with their organization’s commitment to social and environmental responsibility are more likely to have a positive attitude and be more productive than those working for employers who play a lesser role when it comes to social responsibility.

“I wanted to start a company that could be a role model for the different processes that you could put in place to become a profitable company, but do so by respecting your employees, the people making your products, the planet, and the end user as well,” explains Pangea Founder & CEO, Joshua Scott Onysko, who left school at sixteen and took odd jobs for eight years, while traveling the world and learning first-hand about environmental concerns.

Along with health and medical benefits, companies are now more attuned to providing their employees with something more. Having a reputation for being socially conscious when it comes to your personnel will allow you to attract top job candidates and those that will stick around longer, showing a greater commitment to your company. Flex hours, educational programs (which can include paying part of school tuition), day care, and a greener work environment are among the most popular means of demonstrating your commitment to your employees. While wellness is not necessarily “green,” health of body and mind go hand in hand with the global picture. Healthier, less “stressed” employees can benefit a business by taking fewer sick or personal days, being more mentally alert, and physically at the top of their game. From in-house medical screenings by hospital personnel to lectures and seminars on anything from diet and nutrition to high blood pressure, businesses of all sizes are taking the opportunity to make a difference for their employees. Many businesses also offer in-house yoga or aerobics classes or have fitness equipment available.
The trend to move in a more socially conscious direction is not just reserved for the United States. For example, a construction company in Brazil offers its employees the opportunity to complete grade and high school education through its Basic Education Program. Over the past four years, more than 700 employees have participated and succeeded.

Doing for Others

The number of companies aligning themselves with green and/or charitable groups is growing by leaps and bounds. Companies throughout the United States and around the world, are setting up programs and teaming with socially concerned groups and organizations allowing their employees to get involved in some manner. Clif Bar, for example, is involved with the Organic Farming Research Foundation. They also use the phrase “Make it happen” to reflect the company belief that if you care about wild places, you need to do your part to ensure they are saved for future generations. In the course of “making it happen” they have sponsored numerous programs such as their Two Mile Challenge, which was designed to promote bike riding as an alternative means of transportation. Clif Bar & Company have also taken part in working with Habitat for Humanity and teamed with the Breast Cancer Fund on a variety of programs and events that have raised over $1.5 million dollars. All told, the health bar company has supported 90-plus nonprofit organizations, many focused on the betterment of the planet, while others support health- and education-related issues.

It Pays to Care

According to a survey by the Care2 Network (care2.com), 48 percent of employees say they would work for less pay if they could work for a socially-responsible company. In fact, 73 percent of workers responded that it is “very important” to work at a company that they believe is “socially responsible.”

Companies most mentioned as “socially responsible” by survey respondents included Ben & Jerry’s, The Body Shop, Patagonia, Seventh Generation, and Starbucks.

To help employees find environmentally aware and socially responsible companies, the Care2 Network has instituted the Care2 JobFinder.
For some companies it is active participation in fund raising, or hands-on activities, while for others it is donating their products and or services. For example, Nestle Waters North America donated 222,234 half-liter bottles of Ozarka® Brand Natural Spring Water to citizens and disaster relief workers affected by Category 2 Hurricane Dolly. After Hurricane Katrina, thousands of companies pitched in and got involved in clean up, relief, and rebuilding efforts.

Again, this is not just reserved for U.S. companies but is a worldwide phenomenon. For example, in Costa Rica, a pharmaceutical company donated over one million doses of vaccines against measles, mumps, and rubella to help the Pan American Health Organization (PAHO) achieve its goal of measles eradication.

The point is, it’s almost impossible today for any business, large or small, to sit on the sidelines and ignore the plight of the world. Whether it is helping alleviate the devastation of a natural disaster or helping to rebuild a rain forest, the need for social involvement is great and your business needs to get involved. Your employees, customers, and stakeholders will be glad you did.

**Fair Trade Practices**

“It’s very simple to buy fair trade coffee for your office. It costs a little more but you are helping farmers and workers in other parts of the world,” says Mark A. Regier, Stewardship Investing Services Manager for Mennonite Mutual Aid (MMA). Fair trade practices refer to the support of economic justice and fairness as exemplified in the quality and pricing of products. It is designed to eliminate exploitive trade practices and assure that companies involved in the importing and exporting of goods adhere to certain predefined rules designed to make trading fair. In a free market, companies are, unfortunately, able to take advantage of international buyers. In addition, in regions of the world such as Latin America, Africa, Asia, India, and the Caribbean there are minimal rules or guidelines to protect the treatment and pay rate of the workers.

Fair trade practices are designed to protect both workers and the environment. Fair trade certification, initiated by the Fairtrade Labeling Organization International (fairtrade.net), is sourced directly from local cooperatives, which results in more
money going to the growers. Part of Fair Trade Practices is to ensure that farmers, growers, and other workers are not being exploited or treated unfairly, and as a result supports a better life for these workers by guaranteeing compliance with national and regional minimum wage and labor standards.

Doing your part means looking for fair trade certified products. This indicates that workers are receiving fair wages. Starbucks, for example, pays their coffee farmers prices for beans that are above the going rate, while also working with them to use the most environmentally friendly methods of growing and harvesting the coffee beans. If in doubt about where products are coming from, do your research and find out where and how your products are being made, by whom, and at what wages. When working with crafts makers and artisans you want to make sure that they are being fairly compensated. You can also purchase goods from nonprofit groups or cooperatives of farmers, artisans, or manufacturers, which will help ensure fair pay.

In addition, seek out opportunities to support undervalued and/or underserved populations. For example, Pangea Organic supports women-owned farms, of which there are not many in the world, despite the vast number of women involved in farming and food production. Look to benefit populations that are not receiving fair pay or fair opportunities. Also research worker treatment and support only those businesses and economies that are treating workers in a humane manner.

Finally, you can give some of your profits back to indigenous populations to support and strengthen the social and economic conditions in the producer communities.

For more on Fair Trade, you can go to the Fair Trade Federation (FTF) at fairtradefederation.org or Fair Trade Certified at transfairusa.org.

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**A Green Work Environment**

Air quality and a healthy workplace are at the top of the list of employee concerns. Of course, if you have customers coming to your business, cleaner air and a healthy environment will spill over and affect them as well.

One of the first and foremost concerns regarding office health and clean air comes from the manner in which the office is being cleaned and the cleaning products being used. For years, traditional cleaning products have been comprised of dangerous chemicals. Such products kill germs and shine surfaces but also release toxins into the air. The cans or bottles are then discarded into landfills as hazardous waste. While these cleaning products are still on the market, a rapidly increasing number of concerned business owners and managers have opted to clean up their office environment by switching to nontoxic, less dangerous alternatives.

Along with ammonia, borax, and good old baking soda, there are green cleaning
products that can do the same job as the high-powered, high-toxic cleaners. Many of these products are certified by Green Seal, an independent nonprofit organization that promotes the manufacturing, purchasing, and overall use of environmentally responsible products and services. Green Seal evaluates cleaning (and other) products and gives their seal of approval to those that meet their high standards (greenseal.org).

For your purposes, you will be seeking cleaning products that:

- have no volatile organic compounds (VOCs).
- have no ingredients derived from petroleum.
- have no chlorine bleach.
- have a neutral pH.
- have no phosphates.
- have no artificial fragrances or dyes.
- are nontoxic to humans, animals, and plants.
- are biodegradable.
- come in containers that are recyclable, refillable, or reusable.
- are made from naturally derived ingredients from replenishable sources.

Along with using greener cleaning products, the use of microfiber mops and cloths can also be beneficial to your work environment. In addition, safety procedures should be initiated and followed closely. Containers should be closed tightly, spills cleaned up immediately, and anything that needs to be disposed of should be done so in a safe manner. From the start, you need to instill good habits, including cleaning up the kitchen area and workstations so that nothing is left out that can and will contaminate a clean workspace. Don’t forget that fresh air and proper ventilation are important, especially in manufacturing-based businesses.

While doing your part to prevent what is called “indoor air pollution,” you will also want to consider all the potential sources of pollutant and residue that comes from:

- cleaning products
- packing materials
- technology
- foods and chemicals used on agricultural products
- dust and particles from manufacturing products.

Add to this anything brought in on the clothing of your staff, and you get the idea . . . a lot of potential pollutants fill the air in most work establishments.

There are various means of improving air quality in your workspace. Air filters can be placed strategically by return vents and in other locations. In some HVAC systems,
such filters are already in place. Filters are designed to catch the particles that pass through. HEPA (High Energy Particulate Air) filters and ULPA (Ultra Low Penetration Air) filters are DEA-approved and can capture dust and other airborne particles. Should you be in the manufacturing business, you may need air-filtering systems that meet government clean air regulations.

Some basic means of maintaining cleaner air in your office includes making sure vents are not blocked, HVAC systems are cleaned out periodically, smoking is permitted in outdoor areas only, spills are cleaned up quickly, trash is kept in specified areas and covered, and cleaning products are environmentally friendly. Disposing of waste in a proper, efficient manner and making sure that any leaks or cracks in walls are repaired quickly will also help you maintain a healthy work environment.

Green Education

Many green business owners today make a point of letting customers, stakeholders, and the community know about that which they learned about the environment. On the Wild Dill website (wilddill.com) a section called “why organic, fair, natural?” explains the importance of bamboo and soy fiber, organic cotton, and fair trade. An “environment” section on the iTySE website (ityse.biz) provides some facts and figures on the negative environmental impacts of plastic bags. The GreeNow website, (greenow.org) has a section on “Why Biodiesel?” explaining why the use of biodiesel is good for the planet, good for business, and good for your bottom line. The point is, your website is an ideal place to explain the benefits of your products and services while promoting them. Explaining how being green in your little niche of the world is your way of educating web visitors, including regular and potential customers.

You can also spread the word about local or even natural projects and initiatives taking place in the near future. Becoming a source of green information for the community puts you in a highly visible position, allowing you to benefit from promotion while letting people know how and where they can get involved in environmental activities and actions.
Taking the concept one step further, you can also sponsor local events with green themes. New Belgium Brewery has sponsored bike events, while other businesses have raised money through a variety of green activities. Hands-on local clean ups can also be a way of acting on behalf of your global concerns.

One of the most significant ways in which to make a difference is through education, and that is part of social responsibility. Share what you have learned. This may also include sharing ways in which you have learned through your own errors or by changing your ways. Even a well-intentioned green business will likely discover ways in which they can become greener and can teach others based on their own examples of greening their businesses. “Recently, we had to redo all our labels to become greener,” says Barry Reifman, (aka Dr. Stink) of Odorzout, adding that this is how you keep up with the times, by learning what else you can do to be a greener company.

A very enjoyable way of spreading the “green” word is to educate students at local schools. While being an excellent way to acquaint yourself with the community, it is also very gratifying to teach children how to help save their planet. Of course you’ll need to stick to a few basic topics and, depending on the age of the audience, speak their language. However, you will walk away with a rewarding feeling, especially after fielding questions about what the students can do to become junior environmentalists.

## Giving Your People What They Want

In the early days of your business, you may not have many, if any, employees. You will, hopefully, have your fair share of customers as your business grows. If you want to know what your employees and/or customers want, you need to ask them. Hotels and restaurants have cards for diners and visitors to write down what they would like to see more of, or less of. You, too, can have surveys on your website, a place for suggestions, or even some printed suggestion cards. The idea is to gather input and determine which ideas might actually fly and which may not be within the scope of your business and/or your budget.

Having occasional brainstorming meetings with your staffers—even if there are only two or three of you—can be very helpful for any business, especially in the early stages. Green topics can be part of the discussion, focusing on what other ways and means of greening your business are actually feasible. You’ll find that some ideas may...
be perfectly suited to your business as it stands now, while others may be worth hanging onto for future reference.

One note of caution: Whether it is implementing new ideas within your company or aligning yourself with environmental groups and causes, you need to be genuine. In a very web-savvy world, you can’t fool most of the people most of the time. Therefore, if you say that you are going to commit to a new idea, internally or externally, follow through on it. Your employees and your customers can smell a “phony” commitment to social responsibility a mile away, so unless you’re really committed to a cause, don’t try to exploit the concerns and interests of your employees or your customers to enhance your image or make a profit. The result of such foolery will very likely be a huge step back for your business.

Socially Responsible Investing

Environmentally speaking, why not put your money where your mouth is? Socially Responsible Investing (SRI) is a means of making investment choices for your business, your employees, and yourself that reflect the values that are meaningful to the investor. Social consciousness is part of the investment criteria in Socially Responsible Investing, which has become a growing segment of the investment universe, with over $2.3 trillion in investment capital in over 200 SRI mutual funds. And this does not include other funds that are adding socially responsible companies as a means of greening their portfolios. It also does not include making investments directly in new businesses that, like yours, are environmentally aware. “Mission-driven companies can look at how they are infusing that mission through all aspects of our work, including the investments they make,” says Mark A. Regier Stewardship Investing Services Manager for MMA. Businesses, as well as the individuals who own and run them, need to consider where they will invest their money, and socially responsible investment opportunities provide peace of mind.

Criteria vary when it comes to SRI funds, but most are concerned with the products, practices, and management of the businesses in which the funds are investing. Among the social issues incorporated into the stock selection criteria of most SRI mutual funds are:

- human rights
- workplace safety
- community relations and responsibility
- global responsibility, or not
- workplace discrimination
The environmental criteria include:

- type of products manufactured and/or sold
- CO$_2$ emissions or carbon footprint
- Overall sustainability of the business and concern for the environment.
- Manner of doing business, such as shipping, packaging, etc.

These criteria will vary depending on the various holdings of a mutual fund and the nature of the fund. The point is, however, that SRI funds will screen out businesses that are destroying rain forests, polluting waterways, exploiting workers, and making products that are high in toxicity. You can do the same while screening any type of investments, including stocks or investments in other local businesses.

Whether you are looking to invest personally, invest some of your company’s profits down the road, or provide 401k choices for your employees, you will need to exercise some due diligence. Along with environmental concerns, you’ll want to focus on the financial risks associated with all investments and look at the direction in which the market has been headed and try to determine whether you foresee a bull or bear market in the near future.

Critics of SRI, including some financial planners, will argue that perhaps you should simply invest wherever you find the greatest possible profits, make some money, and then use that money to support environmental causes. However, many

Investing Language and What to Look At

When reviewing mutual funds, keep in mind that the commonly posted Average Annual Return is not as true an indicator of success as the Compounded Annual Return. The reason is that if your investment gives you a return of 14 percent over five years, you will have doubled your investment because the investment is compounding annually. Therefore, rather than 14 percent x 5 years or a 70 percent return, you would actually make a 100 percent return on your initial investment. Average Annual Returns will show you 100 percent divided by 5, or a 20 percent Average Annual Return, which isn’t really the case, but looks better for those who are selling investment products. In short, you aren’t really seeing a 20 percent return annually, but a 14 percent return annually and you are making more money each year because of the interest. Look for Compounded Annual Return as a better measure of accurate returns.
investors feel that you should not support companies and businesses that you do not believe are environmentally friendly or socially responsible, but instead align yourself with companies that share your beliefs and environmental vision. It’s important to back businesses and companies you believe in. “Part of our investment strategy is to include investments that in and of themselves are very positive in terms of benefits to society as a whole,” says Regier, adding that they do that through investing in things like responsible real estate, in which issues of the environment and benefits of certain types of construction are being considered.

When looking at SRI mutual funds, look at the holdings of the funds to see which ones include companies that are doing something you believe in. Give your employees some choices for their 401k plans and also consider ETFs. These are Exchange Traded Funds of stocks, bonds, or in some cases other types of investments, that trade on a stock exchange in much the same manner as a typical stock. Unlike mutual funds, you can trade them at any time during the day for a given price. Typically, they track an index, which means less trading, resulting in lower fees for you as the investor. ETFs are new and growing at a very rapid pace with trillions of dollars already invested. A couple of SRI examples would be:

- The **Barclays iShares KLD Select Social Index** (NYSE: KLD), which invests in companies in the KLD Select Social index. The KLD uses a set of socially responsible criteria and is comprised of 200 to 300 companies from the S&P 500 and Russell 1000 indices.
- The **Power-Shares WilderHill Clean Energy Portfolio** (AMEX: PBW), which, in its own words, “seeks to replicate, before fees and expenses, the WilderHill Clean Energy Index,” which includes various companies that focus on greener and generally renewable sources of energy and technologies.

You will many find others, even some that track the PAX index (such as the Pax World Balanced Fund, considered the forerunner of the SRI fund movement), which was the first socially responsible index, formed back in 1970. And there are other SRI Indices to note, such as the Domini 400 Social Index, the Calvert Social Index, and the KLD Broad Market Social Index.

Another option is to simply invest in the stocks, or bonds issued, of companies that you believe are doing something positive for the environment. Showing support for such companies is part of socially responsible investing. In fact, SRI has lit a fire under corporate leaders to get their companies into a better position when it comes to environmental concerns. Many closed-door executive meetings are now the result of not meeting socially responsible criteria and therefore not generating the same investment dollars as in the past. This is the result of a more socially conscious investing public.

Of course SRI is subjective. For example, on one hand you might want to invest
in a hotel chain that utilizes green building practices and donates to One Percent for The Planet. On the other hand, you may also consider it a negative that they serve alcohol at their hotel bars and in their in-room hospitality bars. Everyone needs to draw their own lines in the sand regarding what they believe in, and some people will include their own views on what are considered “vices,” while others will stick with that which has a direct correlation to their environmental concerns—to each their own.

There is a reality factor in Socially Responsible Investing and that is that you can make cases for the degree of social responsibility for any business and any individual. To what degree is a business socially responsible or not? That is the line you draw when you set up your own criteria.

The other factors in terms of selecting socially responsible investments are the financial ones that come into play in any type of investing. You need to look at the earnings of the company or fund, the fees, the future projections, and so on. Here are six quick general investment tips:

1. **Don’t invest what you don’t have.** Until your business has working capital and steady cash flow, you probably won’t be doing much investing. In other words, do not invest money needed for business operations or your own personal needs.

2. **Pay attention.** Too many investors simply put their money into a fund or stock(s) and “let it ride” so to speak. Follow your investments and don’t be afraid to make changes if and when necessary. Holding a losing stock or fund forever (simply because you believe that “someday it will rebound”), is neither profitable or sensible.

3. **Don’t follow the pack mentality.** Investing is a personal thing so you’ll want to go with investments that you believe in. Remember, last year’s big winners may very likely be among this year’s losers (which is often the case).

4. **You do not have to be 100 percent invested at all times.** In a bear market, you might simply want to pull some of your money out, rather than watching it disappear, and put it into cash holdings until the market turns around.

5. **Take advice with a grain of salt.** Far too many people think they have the answer when it comes to making money through investments. Unless you meet someone who can truly read the future (and we know of nobody at this point, except perhaps Nostradamus) don’t buy into other people’s advice unless you do your research.

6. **Know your level of risk.** If a high-risk investment option will keep you up all night, give you anxiety attacks, and put you in the hospital, it isn’t worth it, since the money will only go to footing your hospital bills. There’s nothing
wrong with being a conservative investor if it provides you peace of mind. You may not make as much as a more aggressive investor, but you also won’t lose as much. Hint: Consider stop loss orders so that your investment can only drop a small percentage (such as 5 percent) before you get out.

There are books on Socially Responsible Investing, and plenty of information available online. One place you can look at Social Funds is at socialfunds.com; another is the Social Investing Forum at socialinvest.org.
Keeping It Going

Starting off as a green business is admirable. It shows that you are following your passion beyond the desire to make money. The question, however, is can you sustain sustainability?
Maintaining Positive Green Habits

By starting off on the right foot, you are able to instill good habits, in yourself, in your employees, and in your customers. In many cases, your business was built on principles that set you apart from the more traditional entrepreneur, principles that are at the core of who you are, giving you a head start and making it easier to maintain your focus.

Thinking back periodically on your initial impetus for starting a green business is a great way to maintain your environmental entrepreneurial spirit. Jennifer Doob remembers her reasoning for starting Wild Dill. “I took a year off to stay at home with my son, and I recall that when I went shopping I kept thinking that there just aren’t enough organic products for babies and toddlers,” explains Jennifer.

“In response to people asking for greener events, I called around and asked if anyone used biodiesel in the generators they used. Nobody did, so I started working on the idea. It [greener events] was something that people wanted but nobody was offering,” says Aaron Levinthal of GreeNow.

Shawana Pierson and Chris Kodama of iTySE only need to see the sheer number of plastic bags being dispensed at various stores and discarded along the roadside or on the beach to recall their initial desire to make a difference. “This business was a response to what we have seen with the volume of plastic bags still being used. We felt that people would respond to a stylish alternative product, and so far they have,” explains Shawana Pierson.

Maintaining your environmental focus is largely a matter of reflecting on the principles that got you started, which, when followed diligently and combined with a strong entrepreneurial spirit, can be the stepping stones for great success. When Jeff Lebesch and his wife Kim Jordan hiked up into the mountains to contemplate how to take their home-brewing process and turn it into New Belgium Brewery, little did they know that their 100 percent wind-powered business would also generate a tremendous amount of attention as a leader in sustainability, not to mention a very successful brewery.

Putting It All Together (and Being Recognized)

Quality products, first-rate service, attention to your customers, watching your expenses, putting profits back into your company in the early years, having steady cash flow, and hiring good people are all significant aspects to running a successful business. You need to focus your attention on all of these areas and promote your business
accordingly within your budget and to your target market. Most of the 22 green businesses profiled in Chapter 2 and discussed throughout this book are still in their growing stages. By growing slowly and steadily, they can flourish. However, each business owner needs to keep in mind the pace at which the business can realistically grow.

For some businesses, the goals are simply to stay small and earn money for the two or three people involved. For other businesses, the basement or garage is just the starting location for what will hopefully become a large company, perhaps even going public one day. It does happen. The point is to focus on both short- and long-term goals, realizing that it takes the short-term successes to reach the long-term goals. This holds true for both financial and environmental goals.

Companies like Seventh Generation, Pangea Organics, or Clif Bar have already seen significant financial returns while generating plenty of accolades for their sustainability, green activities, and social consciousness. They have been widely recognized for their efforts and, in fact, won awards. For example, in August 2008 Seventh Generation, the nation’s leading seller of nontoxic household products, was named one of America’s top ten favorite “green” brands by San Francisco-based marketing expert Outlaw Consulting. Of course it’s not really about winning awards but making a difference. Nonetheless, awards help draw attention, which in turn helps you reach more people and make a greater difference . . . so, in a manner of speaking, it’s a cyclical process.

Much smaller companies, such as Sum-Bo-Shine and WeWe Clothing will grow slowly as they generate attention for their competitive edge—having unique green products. They, too, can benefit from being recognized for their environmental contributions, WeWe Clothing was chosen by ThisNext.com as “designer of the week” and Sum-Bo-Shine was awarded Best Organic and Eco-Friendly Products for 2008 by Orca Communications Unlimited, LLC. Every little helps and recognition is a big boost for any small business.

### Staying on Top of Your Industry News

Reports of new environmentally favorable fabrics can be quite significant in the clothing industry. The latest in hybrid cars can draw great interest from car buyers. Tastier organic edibles can be a boon for the organic food seller. The point is that as
an entrepreneur, you need to find your sources of industry information from day one and keep reading and learning about industry activities (green or otherwise) as you proceed in business. The successful entrepreneur knows what is coming around the bend in his or her industry and is ready to embrace new trends, or not, depending on the nature of the changes.

Almost every industry has places from which you can gather information, including:

- associations and member groups
- trade shows
- websites and discussion boards
- newsletters
- conferences
- trade magazines
- networking groups

Likewise, there are newsworthy environmental sites keeping you abreast of the latest in green activities in general and/or in your specific industry (see the reference section at the end of this book for some green websites you may want to visit).

By staying on top of the latest activities in your industry, as well as green activities, you can better position your company competitively in the market. Additionally, you do not get stale or fall behind in the ever-advancing business community. Embracing new business ideas as well as green alternatives to traditional thinking also generates greater enthusiasm for your employees and customers, who see progress and forward thinking.

Setting Up Your Benchmarks

As your business gets off the ground, it is important to set markers, or benchmarks, if you prefer, at which times you can take a look at where you are in conjunction with your goals, as a business owner and as a responsible citizen.

Periodically, you will want to do a company check to make sure you are:

- maintaining an inventory that meets your customer’s needs.
- up to date on the latest services offered.
- maintaining enough cash to purchase what you need.
- building strong relationships with your customers.
- providing incentives and positive feedback to your employees.
- managing internal problems effectively, whether they are with employees, vendors or suppliers.
• keeping track of what your competitors are up to.
• keeping a close eye on your bookkeeping.
• keeping a close eye on your tax payments.
• using cost-effective means of promotion and advertising (and staying within your budget).
• being transparent with your shareholders and incorporating their ideas and concerns into your business plans and strategies.
• dealing with suppliers.
• dealing with green suppliers as much as possible.
• doing as much as you can to conserve energy, water, and natural resources.
• considering alternative, greener means of operating your business, and/or production.
• managing waste efficiently.
• using a green purchasing policy within your facility.
• focusing on indoor air quality.
• limiting shipping and travel needs.
• promoting alternative means of commuting.
• being as sustainable as possible.
• involved in your community, through sponsorship, green activities, participation in community events, etc.

Set these up as guidelines to look at when you check to see where you are as your company grows. Try to make honest assessments and make the areas in which you are falling short top priorities for the near future.

Keeping a business afloat, especially in its early stages, while establishing your best practices, means playing the role of a juggler. As Jan McCabe, co-owner of Montana Stones, says, “Right now, we’re just trying to keep all the balls in the air,” referring to the business she and her husband run selling items made from natural Montana stones, while she is still maintaining another small business setting up flexible benefits plans. The hope for the McCabes, like many new business owners, is that their business grows in the wake of raised awareness of natural products.

The Future of Green

Environmental concerns are actually not new. In the 1960s and ’70s there were movements against pollution and very real concerns, but the Vietnam War, race relations, and various other issues swept the environmentalists out of the limelight. For years environmentalism was seen as counter-culture, as something that emerged from
the hippie era and wasn’t practical in a rapidly advancing, highly technical society. In time, however, global warming became a very real, scientifically proven concern and was documented by high-profile individuals such as Al Gore, among others. The resulting changes in weather patterns coupled with media articles about water pollution, toxins in the air, rainforests disappearing, and the truth about pesticides and the food we eat became more prevalent and began to alarm a culture that was very content ignoring that which it did not see firsthand. The internet connected the globe as never before and, within the past ten years, awareness of the environment and the concerns for the planet finally reached epic proportion.

Finally, the green masses are generating attention in circles that turned a blind eye in the past, with many companies and even politicians being forced, by the growing wave of environmental support, to take notice and subsequent action. Of course the true environmentalists can spot the greenwashers a mile away. They are those companies that are faking environmental concern or throwing their hat into the ring in order to look good. It’s a dangerous game and if caught the business can lose hundreds of thousands, if not millions of dollars between boycotts and bad press.

The efforts of major corporations that are seriously trying to make a difference can certainly have a major impact, simply because they have the money, influence, and manpower to contribute. However, small businesses make up more than 80 percent of all businesses in the United States, and a large portion of the global economy as well. It is the small-business owner who can lay the foundation by shining light on the numerous environmental issues and bringing them to the attention of the large conglomerates. It is the small-business owner can make a difference in each and every community and now in the mass media thanks to the power of their presence on the internet.

Together, small-business owners can, and have, brought environmental concerns to the public as well as the politicians. Therefore, as a small-business owner, you are in the trenches, so to speak, fighting a global battle to save a planet that has been taken for granted by some and exploited by other businesses for way too long.

As time moves forward the hope is that the 22 green businesses highlighted in Chapter 2, and the many new ones that will emerge in the coming years, can make sustainability a “business basic” rather than an alternative to the status quo. The hope is that the next generation will not have to think about opening a “green” business, but will do so by the mere example of how to start a business, any business. It all comes down to the mindset in which entrepreneurs approach their new opportunities.

There will always be the hard-edged salesperson who won’t think twice about selling toxic products in nonrecyclable packaging made by child laborers if it will make a profit. There is still a segment of the business world made up of the cold and calculating sales mentality that worships the mighty dollar at any and all cost. These individuals won’t be entertaining notions of saving the environment very soon. The hope
is that as the future generation of today’s environmentally and socially conscious business owners mature, that these become the exceptions and in time the dinosaurs of the business world.

And finally, yes, the idea of a business is to make a profit. Your greenest hopes and dreams are squashed if your business folds, so you may need to cut corners financially, and make sacrifices environmentally in the early going. You will hopefully reach a balance whereby financial and environmental success goes hand in hand, as Patagonia, Seventh Generation, and Pangea Organics can attest to. Your job, once you begin seeing profits, is to maintain that balance. Remember, there’s a very fine line between green and greed.
Appendix
Green Business Resources

This appendix is designed to launch your developing green business. Although the list is extensive, it is by no means complete. It is one of the wonders of the internet age that at your fingertips, 24/7, you have the virtual world at the ready.

Choose your favorite search engine and start surfing. This is especially important when researching local or regional vendors and associations. Most of the sources listed here are national. You'll want to let your own fingers do the virtual walking when it comes time to finding local sources.

Green Resource Websites

20/20 Vision.org, 2020vision.org
Air & Waste Management Association, awma.org
Alliance for America, allianceforamerica.org
Alliance to Save Energy, ase.org
American Council for an Energy Efficient Economy, aceee.org
American Forest & Paper Association, afandpa.org
American Wind Energy Association, awea.org
Bio-plastics magazine, bioplasticsmagazine.com
Better World Club, betterworldclub.com
Business & Institutional Furniture Manufacturer’s Association, bifma.org
Carbon Fund, carbonfund.org
Care2 Network, care2.com
Center for Biological Diversity, biologicaldiversity.org
Center for Small Business & the Environment, geocities.com/aboutcsbe
CleanAir-CoolPlanet, cleanair-coolplanet.org
Computer Recycling, computerrecyclingdirectory.com
Conservation International, conservation.org
Conservatree, conservatree.com
Container Recycling Institute, container-recycling.org
Earthwatch, earthwatch.org
Eco Businesslinks Environmental Directory, ecobusinesslinks.com
Eco-Cell, eco-cell.org/locate_recycler.asp.
Eco-Office, eco-office.com
EcoMall, ecomall.com
Energy Savers, energysavers.gov
Energy Star, energystar.com
Envirolink Network, envirolink.org
Environmental Protection Agency (EPA), epa.gov
Environmental Technology Council, etc.org
Fair Trade Certified, transfairusa.org
Fair Trade Federation (FTF), fairtradefederation.org
Fairtrade Labeling Organization International, fairtrade.net
Forest Stewardship Council, fsc.org
Green Biz Leaders, greenbizleaders.com
Green Building Exchange, greenbuildingexchange.com
Green Business Alliance, greenbusinessalliance.com
Green Globe, ec3global.com
Green Pages Co-op, greenpages.org
Green Seal, greenseal.org
GreenBiz, greenbiz.com
GreenBlue, greenblue.org
Greenguard, greenguard.org
Interfaith Center on Corporate Responsibility, iccr.org
National Brownfield Association, brownfieldassociation.org
National Recycling Coalition, nrc-recycle.org
One Percent for the Planet, onepercentfortheplanet.org
Planet Green, planetgreen.com
Recellular, recellular.com/recycling
RideSpring, ridespring.com
Social Funds, socialfunds.com.
Social Investment Forum, socialinvest.org
The Daily Green, thedailygreen.com
Treehugger, treehugger.com
United States Green Building Council (USGBC—developers of the LEED ratings system), usgbc.org
ZeroFootprint.com, zerofootprint.com
Zipcar, zipcar.com

Our 22 Green Business Examples

Chokola’j, chocolajchocolate.com
Clif Bar & Company, clifbar.com
Electric Body, electricbody.com
Green Key Real Estate (and The Evergreen Group), greenkeyrealestate.com
Green Mountain Coffee Roasters, greenmountaincoffee.com
GreeNow, greenow.org
Inu Treats, inutreats.com
ITySE, ityse.biz
Kettle Foods, kettlefoods.com
Montana Stones, montanastones.com
New Belgium Brewery, newbelgium.com
Newman’s Own Organics, newmansownorganics.com
New Tech Recycling, newtechrecycling.com
Odorzout, odorzout.com or 88stink.com
Pangea Organics, pangeaorganics.com
Patagonia, patagonia.com
Pizza Fusion, pizzafusion.com
Selfish Box, selfishbox.com
Seventh Generation, seventhgeneration.com
Solar Wind Works, solarwindworks.com
Sum-Bo-Shine, sumboshine.com
WeWe Clothing, weweclothing.com
Wild Dill, wilddill.com

Business Resources

United States Government Agencies and Business Associations

United States Small Business Administration (SBA)
409 Third Street SW
Washington, DC 20416
(800) 827-5722
sba.org
The U.S. Small Business Administration provides new entrepreneurs and existing business owners with financial, technical, and management resources to start, operate, and grow a business. To find your local SBA office, log on to sba.org/regions/states.html.

SBA Services and Products for Entrepreneurs


U.S. SBA Business Plan: Road Map to Success, sba.gov/indexbusplans.html.

U.S. SBA Business Financing and Loan Program, sba.gov/financing

United States Patent and Trademark Office

Internal Revenue Service (IRS)
United States Department of the Treasury
1111 Constitution Avenue NW
Washington, DC 20224
(202) 622-5164
irs.ustreas.gov

Service Corps of Retired Executives (SCORE)
409 Third Street SW, 6th Floor
Washington, DC 20024
(800) 634-0245
score.org

U.S. Department of Labor
200 Constitution Avenue NW Room S-1032
Washington, DC 20210
(866) 4-USA-DOL
dol.gov

U.S. Chamber of Commerce
1615 H Street NW
Washington, DC 20062-2000
(202) 659-6000
uschamber.com
Business Websites, including Business Magazines, Newspapers, and Professional Organizations and Associations

*Advertising Age* and *American Demographics*, adage.com
American Home Business Association, homebusiness.com
American Institute of Architects, aia.org
Biz Tradeshows, biztradeshows.com
*Black Enterprise* magazine, blackenterprise.com
*Business 2.0* magazine, business2.0.com
Business Know-How, businessknowhow.com
Business Network International, bni.com
*Business Week*, businessweek.com
*Canadian Business* magazine, canadianbusiness.com
*Entrepreneur* magazine, entrepreneur.com/magazine
Entrepreneur Online, entrepreneur.com
*Family Business* magazine, familybusinessmagazine.com
*Forbes*, forbes.com
*Inc.* magazine, inc.com
International Franchise Association (IFA), franchise.org
Market Research, marketresearch.com
National Venture Capital Association, nvca.org
Network Solutions, networksolutions.com
News Link, newslink.org
PC Magazine, pcmag.com
Smart Biz, smartbiz.com
Small Business Loans Online, smallbusinessloans.com
*Small Business Opportunities*, sbomag.com
Trade Show Exhibitors Association, tsea.org
V Finance, vfinance.com
Office Supplies

Business Supply, business-supply.com
Discounted Office Supply, discountedofficesupply.com
Green Light Office Supplies, greenlightoffice.com
Green Office Supplies, greenofficesupplies.com
Office Depot, officedepot.com
Office Max, officemax.com
Staples, staples.com
The Green Office, thegreenoffice.com
Benchmarks. A benchmark is a point of reference by which something can be measured, such as your carbon footprint, sustainability, and/or your business profitability. As a business owner, you can set up benchmarks that you would like to reach at a pre-determined time and then measure your success against those markers.

Biodegradable. The ability of a substance to be broken down physically and/or chemically by microorganisms. Natural and organic products are typically biodegradable while many synthetic plastics or materials like polyester generally are not.

Biodiesel. A renewable type of diesel fuel derived from various organic feedstock including vegetable oils and animal fats, for use in compression ignition. Biodiesel is cleaner and more energy efficient (limits CO₂ emissions) than petroleum-based fuels.

Business plan. A comprehensive document clearly outlining the future of a business including all areas of operations, marketing, and management. A business plan is used to generate funding and for the business owner to measure the ongoing progress of the business.

Business structure. Typically refers to the organizational framework in which the business will operate. Most common are sole proprietorship, corporation, or limited liability corporation.
**Carbon footprint.** A measure of the amount of carbon dioxide or CO₂ emitted by a business as part of its daily operations.

**Carbon neutral.** Also known as carbon zero, this is where you are either emitting no CO₂ into the atmosphere or balancing the amount of CO₂ emitted in other another manner.

**Carbon offsets.** A means of achieving carbon neutrality by paying for ecological and environmentally beneficial projects in other parts of the country or the world to balance the amount of CO₂ your business is emitting into the atmosphere. (Green Tags for travel are a similar concept.)

**Competitive edge.** Your advantage over your competition.

**Composting.** A process of utilizing organic materials (typically garbage and scraps) to create a fertilizer for soil and plants.

**Credit rating.** A numerical score used by banks and lenders to evaluate the likelihood of a borrower defaulting on a loan.

**Demographics.** Researched information about the lifestyles, habits, spending, age, social grade, income, and other characteristics of specific populations.

**Eco-friendly (also environmentally friendly).** Ways and means of operating a business or using materials and products that are not harmful to the planet by way of greenhouse gas, CO₂ emissions, being non-biodegradable, or being toxic.

**Energy star.** A joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy that provides designation of products identified as energy-efficient.

**Fair trade.** Making sure that products imported and exported internationally are produced under fair conditions and sold or purchased under reasonable agreements for both sides.

**Global warming.** The warming of the earth’s atmosphere because greenhouses gasses are preventing the heat from escaping (see greenhouse effect).

**Green building.** The practice of building structures utilizing environmentally friendly materials and designed to operate in an ecological manner that uses natural resources and leaves a minimal carbon footprint.

**Greenhouse effect.** The earth’s heat being held in place by gasses in the earth’s atmosphere such as carbon dioxide (CO₂), methane (CH₄), and nitrous oxide (N₂O) (called greenhouses gasses). The result is global warming. This is similar to the manner in which a greenhouse maintains heat.
Greenwashing. The practice of misleading the public by creating a pro-environmental image while not actually following environmental and/or ecological practices.

Hybrid car. An automobile that uses both a combustible (fossil-fuel-burning) engine and an electric motor powered by batteries.

Indoor air quality. The quality of the air within your workplace. Your goal is non-toxicity or Volatile Organic Compounds (see below).

Landfill. A means of final disposal of solid waste on land. The refuse/waste is compacted and spread out in layers of soil, remaining there for years.

LEED-certified. A designation by the U.S. Green Building Council’s Leadership in Energy and Environmental Design (LEED) indicating that either a building, architect, or the material used in the building process meets sustainable green building and development standards.

Lifecycle. The course of a product from the growth of initial materials to the final end of the product’s components either being recycled or ending up as waste.

Media kit. A public relations package sent to the media or clients you are wishing to impress that is usually displayed in a pocket folder. Typically you include recent press releases, articles featuring your business, relevant photos, and background on your company.

Organic. Naturally grown materials without the use of fossil fuels or any types of chemicals.

Recycling. The broad term used to indicate that the materials used in a product will be part of a process that allows them to be reused in another product. There are numerous manners in which various materials, such as plastics, are melted down in the recycling process. Recycling is also often used to refer to the reuse of a product by one person after it has been used by another, thus maintaining the usefulness of the item.

Renewable energy. Energy from resources that can keep producing indefinitely without being depleted, such as solar and wind power.

Reuse. Utilizing a product for another purpose rather than its initial intended purpose to maintain the life and usefulness of the product. Unlike recycling, the item is typically not altered or does not change shape.

Socially responsible. A manner of describing a business or organization that is proactive in terms of doing positive things for their employees and for their community and society at large.
**Socially responsible investing (SRI).** Investing in businesses, mutual funds, or other investment vehicles that use social and environmental criteria that mirror your own beliefs.

**Sustainability.** The practice of maintaining a lifecycle that goes from nature back to nature utilizing as minimal amount of manmade energy as possible.

**Target market.** A clearly defined segment of the overall population to which a business can market and promote its products and services for the intent of generating sales.

**Transparency.** The manner in which your goals, motives, and means of operations are clear and open to being observed or reviewed by the public at large.

**Volatile organic compounds (VOC).** Organic compounds that evaporate readily into the air. These are typically not good for air quality and include substances such as benzene, methylene chloride, and methyl chloroform.

**Waste management.** The process of finding and utilizing ways of limiting waste and/or reducing waste from ending up in landfill.
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CEO and owner of Entrepreneur Media, Inc. - - - xi

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When we first published our *Start Your Own Business* in 1998, we thought it would make a great reference for people who wanted to be their own boss. We offered advice on what steps to take, and what pitfalls to avoid. The book offers common sense approaches to a wide range of challenges facing the new entrepreneur, drawing solutions from the successes and failures of others.

*Start Your Own Business* has been a phenomenal success. With more than 400,000 copies in circulation through four editions, it’s the best-selling business startup book of all time. Business is affected by everything from advances in social marketing to the iPhone, from law changes governing entrepreneurs to the impact of Google on building a customer base. These are fascinating, and exciting, times for the independent business owner.
There’s no doubt that the recent recession has created the most challenging business environment in generations, affecting everyone from the self-employed to General Motors. While most people might see such a sour economy as a mountainous barrier to success, the true entrepreneur sees the opportunities, and navigates the passes through to the other side. Even in economic downturns those with vision, and drive, can thrive.

With that in mind, I welcome you to the fifth edition of Start Your Own Business, updated with insights on the latest trends—including an entirely new chapter on social media and how to make it work for your business. We’re also offering a somewhat longer view of what it takes to succeed. Earlier editions focused on the crucial startup phase. As an entrepreneur myself, I can tell you that starting a business is one thing, and nurturing it to robust health is something else. So we’ve also expanded portions of Start Your Own Business to include advice and guidance on surviving the crucial first three years.

Few people realize that some 600,000 new businesses are born each year, and the vast majority of them succeed. I’ll let you in on a little secret about the winners. They succeed primarily because they prepare. And if Start Your Own Business does nothing else, it will give you the tools to build your own future and success. You can’t just think about that great idea for a business. Once your idea is in place, you need to burrow down into the details of what you need to know and do in order to achieve the entrepreneur’s ultimate goal—financial security while working for yourself.

I’ve had my own successes and failures over the years, and some of the lessons from both types of experiences are in these pages. The staff at Entrepreneur, who also know a thing or two about what it takes to thrive, have added their considerable knowledge, too. Start Your Own Business contains the best of what we all have to offer, in clear and unvarnished language.

All the best in your success.

—Peter Shea, CEO and owner of Entrepreneur Media, Inc.
Why did you pick up this book? Perhaps you know you want to be an entrepreneur and take charge of your own life. You’ve already got a great idea for a business you’re sure will be a hit. Or perhaps you think, somewhere in the back of your mind, that maybe you might like to start your own business but you’re not sure what venture to start, what entrepreneurship is really like, and whether it’s for you.

Whichever of these categories you fall into, you’ve come to the right place. In Part 1, “Think,” we’ll show you what it means to be an entrepreneur. Use our personal goals and objectives worksheet to decide if entrepreneurship is right for you. Don’t have a business idea, or not sure if your idea will fly? You’ll learn the secrets to spotting trends before they happen and for coming up with dozens of surefire business ideas. We’ll also discuss various ways of going into business, including part- and full-time entrepreneurship. Finally, we’ll show you the different options for startup, such as starting from scratch, purchasing an existing business, or buying into a franchise or business opportunity system.
Planning is key to every thriving business. In Part 2, “Plan,” you’ll learn just what you need to do to lay the groundwork for success. Find out how to pinpoint your target market, plus dozens of ways to do market research—from hiring experts to money-saving do-it-yourself tips. Since the name you choose can make or break your business, we share plenty of techniques for coming up with the perfect moniker—one that will attract customers to your company in droves. And don’t forget the nuts-and-bolts necessities like choosing a legal structure—corporation, partnership, sole proprietorship and more. You’ll discover all the information you need to guide you through these often confusing steps to startup.

A business plan is your road map to success, guiding the growth of your business at every stage along the way. We’ll show you how to craft a business plan that puts you on the fast track. Finally, find out why you need professional advisors to help you through your startup, and learn how to select an accountant and an attorney who can help you make money—without costing you a bundle.

Speaking of money, every entrepreneur knows that adequate startup capital is essential to success. But just where do you find that crucial cash? In Part 3, “Fund,” we give you the inside scoop on getting the money you need. Discover dozens of sources of capital. We show you secrets to financing your business yourself, how to tap into the most common source of startup financing (family and friends), plus places you may never have thought of to look for money.

Do you stand a chance of getting venture capital or attracting private investors? You’ll find out in this section. And if you’re looking for a loan, look no further for the secrets to finding the right bank. We explain what bankers look for when evaluating a loan application—and how to make sure yours makes the grade. Seeking money from Uncle Sam? You’ll learn all the details about dozens of loan programs from the government, including special assistance for women and minority entrepreneurs. Whatever your needs, you’re sure to find a financing source that’s right for you.

As they say, “there’s no time like the present,” so grab a cup of coffee, get comfortable, and let’s start creating your business!
chapter 1
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chapter 2
Taking the Plunge
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Should You Launch Your Business
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Build It or Buy It?
Starting a Business vs. Buying One
With the purchase of this book, you’ve taken your first step on the road to entrepreneurship. It’s not a step to be taken lightly, which is why buying this book may be the smartest thing you’ll ever do for your business.

Start Your Own Business can have a major impact on your life. We meet people all the time who tell us how this book or Entrepreneur magazine changed their lives—and few are sorry they took the leap into business ownership. Whether or not they have succeeded, almost no one regrets the journey.

Start Your Own Business is designed as a road map to help you plan a course for your own journey to business ownership. We’re here to show you the best routes to take, help you avoid the potholes and road closures, and navigate the curves and detours.
Some will tell you that the journey you’re about to take is a hazardous one—but not with us at your side! Start Your Own Business prepares you every step of the way. We’re here to instruct and encourage you, to show you new ways to doing things and remind you of the tried and true. You wouldn’t go on an adventure without the proper gear. Think of Start Your Own Business as part of your entrepreneurship gear kit. Refer to it every step of the way, starting with how to get an idea for a business to finally opening the doors to your new venture. Along the way, we provide lots of forms, worksheets and checklists you can actually use in your business to make sure you’re on the right track.

Since business ideas, trends and strategies constantly change, we strive to keep Start Your Own Business up-to-date. For the fifth edition, we’ve updated and revised (or expanded) every chapter and added a lot of new ones, too. In fact, Part 7, “Engage,” is all new. The chapters in this section introduce you to the exciting world of social media and online advertising and marketing.

We start by showing you how to get visitors to your website, keep them there, and make sure they return for more. Next, we move onto social media marketing and networking. If you haven’t jumped on the social media bandwagon yet, your business can’t afford to be left behind. We show you how to use social tools to network with potential customers, and connect and engage with your audience because in today’s marketing landscape, that’s how brands are built.

The business resources and tip boxes (see examples on the next page) are also all updated for the fifth edition. Plus, the “Buy” and “Engage” chapters have been written and updated by new business experts, who are regular writers for Entrepreneur magazine and have generously offered to share their insights and expertise with you.

Finally, there’s an appendix that’s chock full of resources with contact information. We list business associations, federal agencies, books,
magazines and other publications in areas ranging from advertising and marketing to accounting and taxes. We even provide internet resources and equipment manufacturers.

Starting your own business isn’t as frightening or risky as some would have you believe. But it’s a journey that shouldn’t be taken
alone—and that’s why you bought *Start Your Own Business*. We’re glad you’ve chosen us to take this exciting journey with you—you’ll be a smarter traveler for it. Let the journey begin.
Before they get started, some people worry if they have what it takes to be an entrepreneur. If this is you, stop worrying. We firmly believe anyone with the desire and the initiative can be an entrepreneur. And since you purchased this book, it’s likely you have both the desire and the initiative.

But just because you can be an entrepreneur doesn’t mean that now is the right time to take the plunge. This chapter will help you determine if you’re ready for entrepreneurship right now or if you should hold off for a bit.

**The Entrepreneurial Personality**

Every year, hundreds of thousands of people start their own businesses. But while most succeed (yes, that’s the truth!), many do fail. Why? One of the common causes of startup failure is lack of preparation.
People come to the entrepreneurial path from different directions. Increasingly, some start fresh out of college or after a stint at home raising their kids or simply because the idea of actually retiring is abhorrent to them. Most, though, come to entrepreneurship straight out of the work force. Quitting a full-time job to start a business isn’t something to be taken lightly. You should be sure now is the right time to get started. First, you need to ask yourself some questions: Do I have enough money? If you have a family, are they ready for this? Is there a need for a product or service like mine? Parts 1, 2 and 3 of this book will help you answer those questions.

**Full Steam Ahead**

Many successful entrepreneurs say a sense of urgency that made starting their businesses not just a desire but a necessity was their driving force. One entrepreneur’s advice: “You’ll know the time is right when you can honestly say ‘I’ll put my house, jewelry and other personal collateral on the line to attain the startup money I need for the long-term rewards I deserve.’” We’re not recommending you put up your home (though more than a few entrepreneurs started that way). But that willingness to risk everything likely means you’re ready to start now.

What motivates potential entrepreneurs to stop daydreaming about business ownership and actually do something about it? While many people think one single incident—such as getting fired or being passed over for a promotion—is the impetus for becoming your own boss, most experts agree it’s usually a series of frustrations that leads to entrepreneurship.
A fundamental desire to control their own destinies ranks very high on most entrepreneurs’ lists of reasons for starting their own businesses. This need is so strong that entrepreneurs will risk family, future and careers to be their own boss. Unable to feel truly fulfilled working for someone else, these individuals cannot be happy following someone else’s plan or taking orders from a boss.

But opportunity comes in many guises. It might be when potential customers start calling you, or perhaps a business in your area is failing and you know you can make it work. Or maybe you feel as if you’re underemployed (working below your potential salary or your skill level) or not putting your skills and talents to their best use. Perhaps there’s a need for the product or service you want to provide. Or you’ve simply figured out a better or a new way to do something.

**Reality Check**

Once you’ve made the decision to break away, there are several things you should do before taking the next step. Conducting thorough market research is a must. Make sure you have enough cash—not only for the business, but to sustain your life—and discuss the decision with your family. (You’ll find out more about all these steps in Parts 1, 2 and 3 of this book.)

Remember, the rewards of small-business ownership are not instantaneous. You must be determined, patient, persistent, and willing to make sacrifices to ensure those rewards eventually do come.

You’ll need to prepare for the responsibilities that come with business ownership. When things go wrong, the buck stops with you. You won’t have the luxury of going home at 5 o’clock while the boss
stays all night to fix a chaotic situation. Someone whose only desire is to get rich quick probably won’t last long owning his or her own business.

Through surveys and research, we know that successful entrepreneurs share some common personality traits, the most important of which is confidence. They possess confidence not only in themselves but also in their ability to sell their ideas, set up a business and trust their intuition along the way. Small business is fiercely competitive, and it’s the business owners with confidence who survive.

Your Strengths and Weaknesses

It’s rare that one person possesses all the qualities needed to be successful in business. Everyone has strong suits and weak points. What’s important is to understand your strengths and weaknesses. To do this, you need to evaluate the major achievements in your personal and professional life and the skills you used to accomplish them. The following steps can help:

- **Create a personal resume.** Compose a resume that lists your professional and personal experiences as well as your expertise. For each job, describe the duties you were responsible for and the degree of your success. Include professional skills, educational background, hobbies and accomplishments that required expertise or special knowledge.

  When complete, this resume will give you a better idea of the kind of business that best suits your interests and experience.

- **Analyze your personal attributes.** Are you friendly and self-motivated? Are you a hard worker? Do you have common sense? Are you well-organized? Evaluating your personal attributes reveals your likes and dislikes as well as strengths and weaknesses. If you don’t feel comfortable around other people, then a business that requires a lot of customer interaction might not be right for you. Or you may want to hire a “people person” to handle customer service, while you concentrate on the tasks you do best.
One of the best ways to determine if now is the best time to start a business is to meet with other entrepreneurs and see what they do and how they do it. Looking at their life and talking about entrepreneurship can help you figure out if you’re ready.

Often when you talk to someone who’s done it, they’ll tell you all the negative things about owning a business, like the time they had to work a 24-hour day or when the power went out right as they were trying to meet a huge deadline. But those are the things you need to hear about before you get started.

In addition to meeting with successful entrepreneurs, you might want to talk to a few who weren’t so successful. Find out what went wrong with their ventures so you can avoid these problems.

Did they fail to conduct market research before forging ahead? Were they unwilling to work long hours? Were they undercapitalized? Did they have misconceptions about what it really takes to be an entrepreneur?

Many potential business owners find it useful to attend entrepreneurial seminars or classes. You can often find such courses at community colleges, continuing education programs near you or online. Others seek assistance from consulting firms that specialize in helping small businesses get off the ground. There are associations and organizations, both private and public (like SCORE or the Small Business Development Centers) that are eager to assist you. Don’t hesitate to ask for assistance. These people want to help you succeed.

- **Analyze your professional attributes.** Small-business owners wear many different hats, but that doesn’t mean you have to be a jack-of-all-trades. Just be aware of the areas where you’re competent
and the areas where you need help, such as sales, marketing, advertising and administration. Next to each function, record your competency level—excellent, good, fair or poor.

**Go For the Goal**

In addition to evaluating your strengths and weaknesses, it’s important to define your business goals. For some people, the goal is the freedom to do what they want when they want, without anyone telling them otherwise. For others, the goal is financial security.

Setting goals is an integral part of choosing the business that’s right for you. After all, if your business doesn’t meet your personal goals, you probably won’t be happy waking up each morning and trying to make the business a success. Sooner or later, you’ll stop putting forth the effort needed to make the concept work. When setting goals, aim for the following qualities:

- **Specificity.** You have a better chance of achieving a goal if it is specific. “Raising capital” isn’t a specific goal; “raising $10,000 by July 1” is.
- **Optimism.** Be positive when you set your goals. “Being able to pay the bills” isn’t exactly an inspirational goal. “Achieving financial security” phrases your goal in a more positive manner, thus firing up your energy to attain it.
- **Realism.** If you set a goal to earn $100,000 a month when you’ve never earned that much in a year, that goal is unrealistic. Begin with small steps, such as increasing your monthly income by 25 percent. Once your first goal is met, you can reach for larger ones.
Short and long term. Short-term goals are attainable in a period of weeks to a year. Long-term goals can be for five, 10 or even 20 years; they should be substantially greater than short-term goals but should still be realistic.

There are several factors to consider when setting goals:

■ Income. Many entrepreneurs go into business to achieve financial security. Consider how much money you want to make during your first year of operation and each year thereafter, up to five years.

■ Lifestyle. This includes areas such as travel, hours of work, investment of personal assets and geographic location. Are you willing to travel extensively or to move? How many hours are you willing to work? Which assets are you willing to risk?

■ Type of work. When setting goals for type of work, you need to determine whether you like working outdoors, in an office, with computers, on the phone, with lots of people, with children and so on.

■ Ego gratification. Face it: Many people go into business to satisfy their egos. Owning a business can be very ego-gratifying, especially if you’re in a business that’s considered glamorous or exciting. You need to decide how important ego gratification is to you and what business best fills that need.

The most important rule of self-evaluation and goal-setting is honesty. Going into business with your eyes wide open about your strengths and weaknesses, your likes and dislikes and your ultimate goals lets you confront the decisions you’ll face with greater confidence and a greater chance of success.
## Personal Goals and Objectives Worksheet

Setting goals not only gives you an ongoing road map for success, but it shows you the best alternatives should you need or desire a change along the way. You should review your goals on a regular basis. Many do this daily as it helps them assess their progress and gives them the ability to make faster and more informed decisions. Take a few minutes to fill out the following worksheet. You’ll find this very helpful in setting and resetting your goals.

1. **The most important reason for being in business for myself is:**

   __________________________________________________________
   __________________________________________________________
   __________________________________________________________
   __________________________________________________________

2. **What I like best about being in business for myself is:**

   __________________________________________________________
   __________________________________________________________
   __________________________________________________________
   __________________________________________________________

3. **Within five years I would like my business to be:**

   __________________________________________________________
   __________________________________________________________
   __________________________________________________________
   __________________________________________________________
Personal Goals and Objectives Worksheet, continued

4. When I look back over the past five years of my career I feel:
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

5. My financial condition as of today is:
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

6. I feel the next thing I must do about my business is:
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

7. The most important part of my business is (or will be):
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

8. The area of my business I really excel in is:
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
Many people believe starting a business is a mysterious process. They know they want to start a business, but they don’t know the first steps to take. In this chapter, you’re going to find out how to get an idea for a business—how you figure out exactly what it is you want to do and then how to take action on it.

But before we get started, let’s clear up one point: People always wonder if this is a good time to start their business idea. The fact is, there’s really never a bad time to launch a business. It’s obvious why it’s smart to launch in strong economic times. People have money and are looking for ways to spend it. But launching in tough or uncertain economic times can be just as smart. If you do your homework, presumably there’s a need for the business you’re starting. Because many people are reluctant to launch in tough times, your new business
has a better chance of getting noticed. And, depending on your idea, in a down economy there is often equipment (or even entire businesses!) for sale at bargain prices.

Estimates vary, but generally more than 600,000 businesses are started each year in the United States. Yet for every American who actually starts a business, there are likely millions more who begin each year saying “OK, this is the year I am going to start a business,” and then don’t.

Everyone has his or her own roadblock, something that prevents them from taking that crucial first step. Most people are afraid to start; they may fear the unknown or failure, or even success. Others find starting something overwhelming in the mistaken belief they have to start from scratch. They think they have to come up with something that no one has ever done before—a new invention, a unique service. In other words, they think they have to reinvent the wheel.

But unless you’re a technological genius—another Bill Gates or Steve Jobs—trying to reinvent the wheel is a big waste of time. For most people starting a business, the issue should not be coming up with something so unique that no one has ever heard of it but instead answering the questions: “How can I improve on this?” or “Can I do this better or differently from the other guy doing it over there?” Or simply, “Is there market share not being served that makes room for another business in this category?”

**Get the Juices Flowing**

How do you start the idea process? First, take out a sheet of paper and across the top write “Things About Me.” List five to seven things
about yourself—things you like to do or that you're really good at, personal things (we'll get to your work life in a minute). Your list might include: “I'm really good with people, I love kids, I love to read, I love computers, I love numbers, I'm good at coming up with marketing concepts, I'm a problem solver.” Just write down whatever comes to your mind; it doesn’t need to make sense. Once you have your list, number the items down one side of the paper.

On the other side of the paper, list things that you don’t think you’re good at or you don’t like to do. Maybe you’re really good at marketing concepts, but you don’t like to meet people or you’re really not that fond of kids or you don’t like to do public speaking or you don’t want to travel. Don’t overthink it; just write down your thoughts. When you’re finished, ask yourself: “If there were three to five products or services that would make my personal life better, what would they be?” This is your personal life as a man, woman, father, husband, mother, wife, parent, grandparent—whatever your situation may be. Determine what products or services would make your life easier or happier, make you more productive or efficient, or simply give you more time.

Next, ask yourself the same question about your business life. Examine what you like and dislike about your work life as well as what traits people like and dislike about you. Finally, ask yourself why you’re seeking to start a business in the first place. Then, when you’re done, look for a pattern to emerge (i.e., whether there’s a need for a business doing one of the things you like or are good at). To make the process a bit easier, we’ve provided a “Things About Me Worksheet” for you to complete, starting on page 22.

**TIP**

Don’t overlook publications in your search for business ideas. Books, newspapers and magazines all contain a wealth of ideas. Your reading list should include business, lifestyle, and niche publications like pets or antique tractors. Read your local newspaper, as well as major newspapers from the large trend-setting cities like Los Angeles, New York and San Francisco, many of which you can read online for free.
Things About Me Worksheet

Complete the following self-assessment worksheet as honestly as you can. Just write down whatever comes to mind; don’t overthink the exercise. Most likely, your first response will be your best. Once you’ve finished the exercise, look for patterns (i.e., is there a need for a business doing one of the things you like or are good at?).

1. List at least five things you like to do or are good at:

   ____________________________________________________
   ____________________________________________________
   ____________________________________________________
   ____________________________________________________
   ____________________________________________________

2. List five things you are not good at or you don’t like to do:

   ____________________________________________________
   ____________________________________________________
   ____________________________________________________
   ____________________________________________________
   ____________________________________________________

3. List three products or services that would make your personal life better:

   ____________________________________________________
   ____________________________________________________
   ____________________________________________________
Things About Me Worksheet, continued

4. List three products or services that would make your business life better:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

5. When people ask what you do, what’s your answer? (List one occupation or whatever mainly occupies your week.)

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

6. List five things you enjoy about your work:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

7. List five things you dislike about your work:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
Things About Me Worksheet, continued

8. When people tell you what they like most about you, they say:

____________________________________________________________________
____________________________________________________________________

9. Some people dislike the fact that you:

____________________________________________________________________
____________________________________________________________________
____________________________________________________________________

10. Other than your main occupation, list any other skills you possess, whether you excel at them or not:

____________________________________________________________________
____________________________________________________________________
____________________________________________________________________

11. In addition to becoming more financially independent, you would also like to be more:

____________________________________________________________________
____________________________________________________________________

12. Write down three things you want to see changed or improved in your community:

____________________________________________________________________
____________________________________________________________________
____________________________________________________________________
They Delivered

Here’s a business startup story that’s a great example of seeing a need and filling it. *Entrepreneur* magazine is located in Irvine, California, a planned community. Many years ago, there weren’t many fast-food restaurants in the business area. Most were across town, where the neighborhoods were. Two young men in Irvine found this lunch situation very frustrating. There weren’t many affordable choices. Sure, there were some food courts located in strip centers, but the parking lots were really small and the wait was horrendous.

One day, as they were lamenting their lunch problem, one of them said, “Wouldn’t it be great if we could get some good food delivered?” The proverbial light bulb went on! Then they did what many people don’t do—they did something about their idea. Coincidentally, they purchased one of *Entrepreneur*’s business startup guides and started a restaurant delivery business.

To date, their business has served more than 15 million people! It’s neither a complicated business nor an original one. Their competition has gotten stiffer, and yet they’re doing phenomenally well. And it all began because they listened to their own frustrations and decided to do something about them. Little did they know that research cites the shrinking lunch hour as one of the biggest complaints by American workers. Some only get 30 minutes, making it nearly impossible to get out, get lunch and get back on time. So while these young entrepreneurs initially thought they were responding to a personal need in their local area, they actually struck a universal chord.

That is one way to get ideas—listening to your own (or your coworkers’, family’s or neighbors’) frustrations. The opportunities are all there; you just need to search them out. If your brain is always set in

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**AHA!**

Your hobbies may lead you to business ideas. If gardening or antique toy collecting is what turns you on, take your passion and turn it into a real business. Sell your locally grown herbs or vegetables to restaurants or set up an online business selling your rare toy finds on eBay.
idea mode, then many ideas may come from just looking around or reading. For instance, if you had read an article about the shrinking lunch hour, and if you were thinking entrepreneurially, you would say “Wow, maybe there’s an opportunity there for me to do something. I should start researching it.”

**Inspiring Moments**

Inspiration can be anywhere. Here’s another classic startup story: Ever get charged a fee for returning a video late? Bet you didn’t do anything about it. Well, when Reed Hastings got a whopping $40 late charge, instead of getting mad, he got inspired. Hastings wondered “How come movie rentals don’t work like a health club, where, whether you use it a lot or a little, you get charged the same?” From this thought, Netflix.com, an online DVD rental service, was born. From its start in 1999, Netflix has grown into a big business with revenues topping $1.3 billion.

Getting an idea can be as simple as keeping your eyes peeled for the latest hot businesses; they crop up all the time. Many local entrepreneurs made tons of money bringing the Starbucks coffeehouse concept to their hometowns and then expanding from there. Take Minneapolis-based Caribou Coffee. The founders had what they describe as an “aha moment” in 1990, and two years later launched what is now the nation’s second-largest company-owned gourmet coffeehouse chain. Other coffee entrepreneurs have chosen to stay local.

And don’t overlook the tried and true. Hot businesses often go through cycles. Take gardening. For the last few years gardening products and supplies have been all the rage, but you wouldn’t consider gardening a 21st century business.

In other words, you can take any idea and customize it to the times and your community. Add your own creativity to any concept. In fact, customizing a concept isn’t a choice; it’s a necessity if you want your business to be successful. You can’t just take an idea, plop it down and
say “OK, this is it.” Outside of a McDonald’s, Subway or other major franchise concept, there are very few businesses that work with a one-size-fits-all approach.

One of the best ways to determine whether your idea will succeed in your community is to talk to people you know. If it’s a business idea, talk to co-workers and colleagues. Run personal ideas by your family or neighbors. Don’t be afraid of people stealing your idea. It’s just not likely. Just discuss the general concept; you don’t need to spill all the details.

**Just Do It!**

Hopefully by now, the process of determining what business is right for you has at least been somewhat demystified. Understand that business startup isn’t rocket science. No, it isn’t easy to begin a business, but it’s not as complicated or as scary as many people think, either. It’s a step-by-step, common-sense procedure. So take it a step at a time. First step: Figure out what you want to do. Once you have the idea, talk to people to find out what they think. Ask “Would you buy and/or use this, and how much would you pay?”
Understand that many people around you won’t encourage you (some will even discourage you) to pursue your entrepreneurial journey. Some will tell you they have your best interests at heart; they just want you to see the reality of the situation. Some will envy your courage; others will resent you for having the guts to actually do something. You can’t allow these naysayers to dissuade you, to stop your journey before it even begins.

In fact, once you get an idea for a business, what’s the most important trait you need as an entrepreneur? Perseverance. When you set out to launch your business, you’ll be told “no” more times than you’ve ever been told before. You can’t take it personally; you’ve got to get beyond the “no” and move on to the next person—because eventually, you’re going to get to a “yes.”

One of the most common warnings you’ll hear is about the risk. Everyone will tell you it’s risky to start your own business. Sure, starting a business is risky, but what in life isn’t? Plus, there’s a difference between foolish risks and calculated ones. If you carefully consider what you’re doing, get help when you need it, and never stop asking questions, you can mitigate your risk.

**FIT TO A “T”**

Every December in *Entrepreneur*, the hottest business trends for the coming year are profiled, representing a lot of research and a lot of homework. But that doesn’t mean these businesses will work for you. After all, you may not be good at these particular businesses. Or you could live in an area where the business is already saturated or not viable. Or they simply may not suit you, and you’d end up hating your business. And chances are if you hate what you’re doing, you’ll fail doing it.
You can’t allow the specter of risk to stop you from going forward. Ask yourself “What am I really risking?” And assess the risk. What are you giving up? What will you lose if things don’t work out? Don’t risk what you can’t afford. Don’t risk your home, your family or your health. Ask yourself “If this doesn’t work, will I be worse off than I am now?” If all you have to lose is some time, energy and money, then the risk is likely worth it.

Determining what you want to do is only the first step. You’ve still got a lot of homework to do, a lot of research in front of you. Buying this book is a smart first step. Most important: Do something. Don’t sit back year after year and say “This is the year I’m going to start my business.” Make this the year you really do it!

AHA!

Is there a household chore that drives you up the wall? (One shudders to think of life before vacuum cleaners.) Common sources of frustration or irritation are great idea generators.
Should you start your business part time or full time? Even if you ultimately plan to go full time, many entrepreneurs and experts say starting part time can be a good idea.

Starting part time offers several advantages. It reduces your risk because you can rely on income and benefits from your full-time job. Starting part time also allows your business to grow gradually.

“Starting part time is simply the best way,” contends Philip Holland, author of *How to Start a Business Without Quitting Your Job*. “You find out what running a business requires, while limiting your liability if it fails.”

Yet the part-time path is not without its own dangers and disadvantages. Starting part time leaves you with less time to market your business, strategize and build a clientele. Since you won’t be available to answer calls or solve customers’ problems for most of the day,
clients may become frustrated and feel you’re not offering adequate customer service or responding quickly enough to their needs.

Perhaps the biggest problem for part-time entrepreneurs is the risk of burnout. Holding down a full-time job while running a part-time business leaves you with little, if any, leisure time; as a result, your personal and family life may suffer.

“Working by day and running a business by night creates a host of potential conflicts and can add a tremendous amount of stress,” cautions Arnold Sanow, co-author of *You Can Start Your Own Business*. Sanow says conflicts between a day job and a sideline business are common, as are family problems: “I’ve seen a lot of divorces as a result of working full time and having a business on the side.”

That’s not to say a part-time business can’t work. It can, Sanow says—if you have excellent time management skills, strong self-discipline, and support from family and friends. Also crucial, he says, is your commitment: “Don’t think that, since you already have a job, you don’t really have to work hard at your business. You must have a plan of attack.”

### Market Matters

As with any business, your plan of attack should start with a thorough assessment of your idea’s market potential. Often, this step alone will be enough to tell you whether you should start part-time or full time.

You can’t become so caught up in your love for what you’re doing that you overlook the business realities. If you find there is a huge unmet need for your product or service, no major competition and a ready supply of eager customers, then by all means go ahead and start
full time. If, on the other hand, you find that the market won’t support a full-time business, but might someday with proper marketing and business development, then it is probably best to start part time at first.

Investigate factors such as the competition in your industry, the economy in your area, the demographic breakdown of your client base, and the availability of potential customers. If you are thinking of opening an upscale beauty salon, for example, evaluate the number of similar shops in operation, as well as the number of affluent women in the area and the fees they are willing to pay.

Once you have determined there is a need for your business, outline your goals and strategies in a comprehensive business plan. You should always conduct extensive research, make market projections for your business, and set goals for yourself based on these findings. It gives you a tremendous view of the long-range possibilities and keeps the business on the right track. Don’t neglect writing a business plan even if you’re starting part time: A well-written business plan will help you take your business full time later on.

Certain businesses lend themselves well to part-time operation: Holland cites e-commerce, food products, direct marketing and service businesses as examples. Doing your market research and business plan will give you a more realistic idea of whether your business can work part time. (For specifics on conducting market research and writing a business plan, see Chapters 6, 7 and 10).

If you’ve got your heart set on a business that traditionally requires a full-time commitment, think creatively: There may be ways to make it work on a part-time basis. For instance, instead of a restaurant, consider a catering business. You’ll still get to create menus and interact with customers, but your work can all be done during evenings and weekends.
Financial Plan

One major factor in the decision to start part time or full time is your financial situation. Before launching a full-time business, most experts recommend putting aside enough to live on for at least six months to a year. (That amount may vary; completing your business plan will show you in detail how long you can expect to wait before your business begins earning a profit.)

Basic factors you should consider include the amount of your existing savings, whether you have assets that could be sold for cash, whether friends or family members might offer you financing or loans, and whether your spouse or other family members’ salaries could be enough to support your family while you launch a business full time.

If, like many people, you lack the financial resources to start full time, beginning part time is often a good alternative. However, even if you do start part time, you’ll want to keep some figures in mind: Specifically, how do you know when your business is making enough money that you can say goodbye to your day job?

A good rule of thumb, according to Sanow, is to wait until your part-time business is bringing in income equivalent to at least 30 percent of your current salary from your full-time job. “With 30 percent of their income, plus all the extra time during the day to promote their business, [entrepreneurs] should be able to make [the transition at that point],” he says. Another good idea: Start putting more money aside while you still have your day job. That way, when you take the full-time plunge, you’ll have a financial cushion to supplement the income from your business.
Family Affairs

The emotional and psychological side of starting a business is less cut-and-dried than financial and market aspects, but it’s just as important in your decision to start part time or full time.

Begin by discussing the situation with your spouse, significant other or family members. Do they support your decision to start a business? Do they understand the sacrifices both full-time and part-time businesses will require—from you, from them and from the whole family? Make sure your loved ones feel free to bring any objections or worries out in the open. The time to do this is now—not three months after you have committed to your business and it is too late to back out.

Then, work together to come up with practical solutions to the problems you foresee (could your spouse take over some of the household chores you currently handle, for example?). Lay some ground rules for the part-time business—for instance, no work on Sunday afternoons, or no discussing business at the dinner table.

To make your part-time business a success and keep your family happy, time management is key. Balance the hours you have available. Get up early, and don’t spend valuable time on frivolous phone calls and other time wasters.

Getting Personal

Besides the effect business ownership will have on your family, equally important to consider is the toll it might take on you. If the idea of taking the full-time business plunge and giving up your comfy salary and cushy benefits keeps you awake at night biting your nails, then perhaps a part-time business is best. On the other hand, if you need to work long hours at your current full-time job, you commute 60 miles round-trip

TIP

What do you do if you can’t afford to start your business full time but need to be available full time to answer client and customer calls? Consider teaming up with a partner whose available hours complement yours.
and you have 2-year-old triplets, piling a part-time business on top of all those commitments could be the straw that breaks the camel’s back.

Of course, a full-time business does require long, long hours, but a part-time business combined with a full-time job can be even more stressful. If this is the route you’re considering, carefully assess the effects on your life. You’ll be using evenings, weekends and lunch hours—and, most likely, your holidays, sick days and vacation time—to take care of business. You’ll probably have to give up leisure activities such as going to the movies, watching TV, reading or going to the gym. How will you feel the next time you drag yourself home, exhausted after a late night at the office... then have to sit right down and spend four hours working on a project that a client needs the next morning? This is the kind of commitment you will need to make if you expect

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**TAKE IT EASY**

Does all work and no play make entrepreneurship no fun? Some entrepreneurs who run part-time businesses based on hobbies, such as crafts or cooking, find that going full time takes all the fun out of the venture. “Going full time turns an adventure into a job,” as business expert Arnold Sanow puts it.

Some entrepreneurs have trouble grasping the fact that their businesses aren’t just pastimes anymore. They can’t work at their leisure any longer, and their ventures may require them to develop talents they didn’t know they had and perform tasks they’d rather leave to someone else.

Don’t get so caught up in the creative aspects of the venture that you lose sight of the business responsibilities you must assume to make your startup succeed. Take a realistic look at what going full time will require. Perhaps you can hire people to handle the business aspects you dislike, such as sales or operations.
your part-time business to succeed. Carefully consider whether you have the mental and physical stamina to give your best effort to both your job and your business.

Decisions, Decisions
Whether to start part time or full time is a decision only you can make. Whichever route you take, the secret to success is an honest assessment of your resources, your commitment level and the support systems you have in place. With those factors firmly in mind, you will be able to make the right choice.

PART-TIME POINTERS

Balancing a full-time job with a part-time business isn’t easy—but it can be done. Arnold Sanow, co-author of You Can Start Your Own Business, suggests these tips to help make your part-time business a success:

- **Involve your family in the business whenever possible.** Whether it’s answering the phone, stuffing envelopes or putting together orders, giving your family the chance to help out is a great way to get more accomplished in less time—while also making your family feel like they’re part of your business.

- **Be ready to give up personal time.** You won’t have much time for TV, reading or hobbies you used to enjoy. Be sure the sacrifice is worth it, or both your job and your business will suffer.

- **Focus on the task in front of you.** When you’re at work, focus on work; don’t let thoughts of your business distract you.
Make the most of every minute. Use lunch hours or early morning to make phone calls; use commuting time on the train to catch up on paperwork.

Take advantage of time zone differences and technology. If you do business with people in other states or countries, make time differences work to your advantage by calling early in the morning or after work. Use faxes and e-mail to communicate with clients at any time of day or night.

Don’t overstep your boundaries. Making business calls on company time or using your employer’s supplies or equipment for business purposes is a big no-no.

Be honest. Only you can assess your situation, but in many cases it’s best to be upfront with your boss about your sideline business. As long as it doesn’t interfere with your job, many bosses won’t mind—and you’ll gain by being honest rather than making them feel you have something to hide.
When most people think of starting a business, they think of beginning from scratch—developing your own idea and building the company from the ground up. But starting from scratch presents some distinct disadvantages, including the difficulty of building a customer base, marketing the new business, hiring employees and establishing cash flow . . . all without a track record or reputation to go on.

Some people know they want to own their own businesses but aren’t sure exactly what type of business to choose. If you fall into this category, or if you are worried about the difficulties involved in starting a business from the ground up, the good news is that there are other options: buying an existing business, buying a franchise or buying a business opportunity. Depending on your personality, skills and resources,
these three methods of getting into business may offer significant advantages over starting from scratch.

Buying an Existing Business

In most cases, buying an existing business is less risky than starting from scratch. When you buy a business, you take over an operation that’s already generating cash flow and profits. You have an established customer base and reputation as well as employees who are familiar with all aspects of the business. And you do not have to reinvent the wheel—setting up new procedures, systems and policies—since a successful formula for running the business has already been put in place.

On the downside, buying a business is often more costly than starting from scratch. However, it’s often easier to get financing to buy an existing business than to start a new one. Bankers and investors generally feel more comfortable dealing with a business that already has a proven track record. In addition, buying a business may give you valuable legal rights, such as patents or copyrights, which can prove very profitable.

Of course, there’s no such thing as a sure thing—and buying an existing business is no exception. If you’re not careful, you could get stuck with obsolete inventory, uncooperative employees or outdated distribution methods. To make sure you get the best deal when buying an existing business, take the following steps.

The Right Choice

Buying the perfect business starts with choosing the right type of business for you. The best place to start is by looking in an industry you are familiar with and understand. Think long and hard about the types of businesses you are interested in and which are the best matches with
your skills and experience. Also consider the size of business you are looking for, in terms of employees, number of locations and sales.

Next, pinpoint the geographical area where you want to own a business. Assess the labor pool and costs of doing business in that area, including wages and taxes, to make sure they’re acceptable to you. Once you’ve chosen a region and an industry to focus on, investigate every business in the area that meets your requirements. Start by looking in the local newspaper’s classified ad section under “Business Opportunities” or “Businesses for Sale.”

You can also run your own “Wanted to Buy” ad describing what you are looking for.

“The play by the rules. But be ferocious.”

—Philip Knight, Co-founder of Nike

You are investigating a business you like, and the seller hands you income tax returns that show a $50,000 profit. “Of course,” he says with a wink and a nudge, “I really made $150,000.” What do you do?

There may be perfectly legal reasons for the lower reported income. For instance, if the seller gave his nephew a nonessential job for $25,000 a year, you can just eliminate the job and keep the cash. Same goes for a fancy leased car. One-time costs of construction or equipment may have legitimately lowered net profits, too.

What to watch for: a situation where a seller claims he or she made money but just didn’t report it to the IRS. If this happens, either walk away from the deal . . . or make an offer based on the proven income.
Remember, just because a business isn’t listed doesn’t mean it isn’t for sale. Talk to business owners in the industry; many of them might not have their businesses up for sale but would consider selling if you made them an offer. Put your networking abilities and business contacts to use, and you’re likely to hear of other businesses that might be good prospects.

Contacting a business broker is another way to find businesses for sale. Most brokers are hired by sellers to find buyers and help negotiate deals. If you hire a broker, he or she will charge you a commission—typically 5 to 10 percent of the purchase price. The assistance brokers can offer, especially for first-time buyers, is often worth the cost. However, if you are really trying to save money, consider hiring a broker only when you are near the final negotiating phase. Brokers can offer assistance in several ways:

- **Prescreening businesses for you.** Good brokers turn down many of the businesses they are asked to sell, either because the seller won’t provide full financial disclosure or because the business is overpriced. Going through a broker helps you avoid these bad risks.

- **Helping you pinpoint your interests.** A good broker starts by finding out about your skills and interests, then helps you select the right business for you. With the help of a broker, you may discover that an industry you had never considered is the ideal one for you.

- **Negotiating.** During the negotiating process is when brokers really earn their keep. They help both parties stay focused on the ultimate goal and smooth over problems.

- **Assisting with paperwork.** Brokers know the latest laws and regulations affecting everything from licenses and permits to financing and

> “Pretend that every single person you meet has a sign around his or her neck that says ‘Make Me Feel Important.’ Not only will you succeed in business, but you will succeed in life.”

—Mary Kay Ash, founder of Mary Kay Cosmetics
escrow. They also know the most efficient ways to cut through red tape, which can slash months off the purchase process. Working with a broker reduces the risk that you’ll neglect some crucial form, fee or step in the process.

**A Closer Look**

Whether you use a broker or go it alone, you will definitely want to put together an “acquisition team”—your banker, accountant and attorney—to help you. (For more on choosing these advisors, see Chapter 11.) These advisors are essential to what is called “due diligence,” which means reviewing and verifying all the relevant information about the business you are considering. When due diligence is done, you will know just what you are buying and from whom.

The preliminary analysis starts with some basic questions. Why is this business for sale? What is the general perception of the industry and the particular business, and what is the outlook for the future? Does—or can—the business control enough market share to stay profitable? Are the raw materials needed in abundant supply? How have the company’s product or service lines changed over time?

You also need to assess the company’s reputation and the strength of its business relationships. Talk to existing customers, suppliers and vendors about their relationships with the business. Contact the Better Business Bureau, industry associations and licensing and credit-reporting agencies to make sure there are no complaints against the business. (For more questions to ask before purchasing an existing business, refer to the checklist starting on page 44.)

If the business still looks promising after your preliminary analysis, your acquisition team should start examining the business’s potential returns and its asking price. Whatever method you use to determine the fair market price of the business, your assessment of the business’s value should take into account such issues as the business’s financial health, earnings history, growth potential, and intangible assets (for example, brand name and market position).
Business Evaluation Checklist

If you find a business that you would like to buy, you will need to consider a number of points before you decide whether to purchase it. Take a good, close look at the business and answer the following questions. They will help you determine whether the business is a sound investment.

- Why does the current owner want to sell the business?
- Does the business have potential for future growth, or will its sales decline?
- If the business is in decline, can you save it and make it successful?
- Is the business in sound financial condition? Have you seen audited year-end financial statements for the business? Have you reviewed the most recent statements? Have you reviewed the tax returns for the past five years?
- Have you seen copies of all the business’s current contracts?
- Is the business now, or has it ever been, under investigation by any governmental agency? If so, what is the status of any current investigation? What were the results of any past investigation?
- Is the business currently involved in a lawsuit, or has it ever been involved in one? If so, what is the status or result?
- Does the business have any debts or liens against it? If so, what are they for and in what amounts?
- What percentage of the business’s accounts are past due? How much does the business write off each year for bad debts?
- How many customers does the business serve on a regular basis?
- Who makes up the market for this business? Where are your customers located? (Do they all come from your community or from across the state or are they spread across the globe?)
Business Evaluation Checklist, continued

❑ Does the amount of business vary from season to season?

❑ Does any single customer account for a large portion of the sales volume? If so, would the business be able to survive without this customer? (The larger your customer base is, the more easily you will be able to survive the loss of any customers. If, on the other hand, you exist mainly to serve a single client, the loss of that client could finish your business.)

❑ How does the business market its products or services? Does its competition use the same methods? If not, what methods does the competition use? How successful are they?

❑ Does the business have exclusive rights to market any particular products or services? If so, how has it obtained this exclusivity? Do you have written proof that the current business owner can transfer this exclusivity to you?

❑ Does the business hold patents for any of its products? Which ones? What percentage of gross sales do they represent? Would the sale of the business include the sale of any patents?

❑ Are the business’s supplies, merchandise and other materials available from many suppliers, or are there only a handful who can meet your needs? If you lost the business’s current supplier, what impact would that loss have on your business? Would you be able to find substitute goods of the appropriate quality and price?

❑ Are any of the business’s products in danger of becoming obsolete or of going out of style? Is this a “fad” business?

❑ What is the business’s market share?

❑ What competition does the business face? How can the business compete successfully? Have the business’s competitors changed recently? Have any of them gone out of business, for instance?

❑ Does the business have all the equipment you think is necessary? Will you need to add or update any equipment?
To get an idea of the company’s anticipated returns and future financial needs, ask the business owner and/or accountant to show you projected financial statements. Balance sheets, income statements, cash flow statements, footnotes and tax returns for the past three years are all key indicators of a business’s health. These documents will help you do some financial analyses that will spotlight any underlying problems and also provide a closer look at a wide range of less tangible information.

Among other issues, you should focus on the following:

- **Excessive or insufficient inventory.** If the business is based on a product rather than a service, take careful stock of its inventory. First-time business buyers are often seduced by inventory, but it can be a trap. Excessive inventory may be obsolete or may soon

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**Business Evaluation Checklist, continued**

- What is the business’s current inventory worth? Will you be able to use any of this inventory, or is it inconsistent with your intended product line?
- How many employees does the business have? What positions do they hold?
- Does the business pay its employees high wages, or are the wages average or low?
- Does the business experience high employee turnover? If so, why?
- What benefits does the business offer its employees?
- How long have the company’s top managers been with the company?
- Will the change of ownership cause any changes in personnel?
- Which employees are the most important to the company?
- Do any of the business’s employees belong to any unions?
Short on cash? Try these alternatives for financing your purchase of an existing business:

- **Use the seller’s assets.** As soon as you buy the business, you’ll own the assets—so why not use them to get financing now? Make a list of all the assets you’re buying (along with any attached liabilities), and use it to approach banks, finance companies and factors (companies that buy your accounts receivable).

- **Bank on purchase orders.** Factors, finance companies and banks will lend money on receivables. Finance companies and banks will lend money on inventory. Equipment can also be sold, then leased back from equipment leasing companies.

- **Ask the seller for financing.** Motivated sellers will often provide more lenient terms and a less rigorous credit review than a bank. And unlike a conventional lender, they may take only the business’s assets as collateral. Seller financing is also flexible: The parties involved can structure the deal however they want, negotiating a payback schedule and other terms to meet their needs.

- **Use an employee stock ownership plan (ESOP).** ESOPs offer you a way to get capital immediately by selling stock in the business to employees. By offering to set up an ESOP plan, you may be able to lower the sales price.

- **Lease with an option to buy.** Some sellers will let you lease a business with an option to buy. You make a down payment, become a minority stockholder and operate the business as if it were your own.

- **Assume liabilities or decline receivables.** Reduce the sales price by either assuming the business’s liabilities or having the seller keep the receivables.
become so; it also costs money to store and insure. Excess inventory can mean there are a lot of dissatisfied customers who are experiencing lags between their orders and final delivery or are returning items they aren’t happy with.

■ The lowest level of inventory the business can carry. Determine this, then have the seller agree to reduce stock to that level by the date you take over the company. Also add a clause to the purchase agreement specifying that you are buying only the inventory that is current and saleable.

■ Accounts receivable. Uncollected receivables stunt a business’s growth and could require unanticipated bank loans. Look carefully at indicators such as accounts receivable turnover, credit policies, cash collection schedules and the aging of receivables.

■ Net income. Use a series of net income ratios to gain a better look at a business’s bottom line. For instance, the ratio of gross profit to net sales can be used to determine whether the company’s profit margin is in line with that of similar businesses. Likewise, the ratio of net income to net worth, when considered together with projected increases in interest costs, total purchase price and similar factors, can show whether you would earn a reasonable return. Finally, the ratio of net income to total assets is a strong indicator of whether the company is getting a favorable rate of return on assets. Your accountant can help you assess all these ratios. As he or she does so, be sure to determine whether the profit figures have been disclosed before or after taxes and the amount of returns the current owner is getting from the business. Also assess how much of the

TIP

Study the financial records provided by the current business owner, but don’t rely on them exclusively. Insist on seeing the tax returns for at least the past three years. Also, where applicable, ask for sales records.
expenses would stay the same, increase or decrease under your management.

- **Working capital.** Working capital is defined as current assets less current liabilities. Without sufficient working capital, a business can’t stay afloat—so one key computation is the ratio of net sales to net working capital. This measures how efficiently the working capital is being used to achieve business objectives.

- **Sales activity.** Sales figures may appear more rosy than they really are. When studying the rate of growth in sales and earnings, read between the lines to tell if the growth rate is due to increased sales volume or higher prices. Also examine the overall marketplace. If the market seems to be mature, sales may be static—and that might be why the seller is trying to unload the company.

- **Fixed assets.** If your analysis suggests the business has invested too much money in fixed assets, such as the plant property and equipment, make sure you know why. Unused equipment could indicate that demand is declining or that the business owner miscalculated manufacturing requirements.

- **Operating environment.** Take the time to understand the business’s operating environment and corporate culture. If the business depends on overseas clients or suppliers, for example, examine the short- and long-term political environment of the countries involved. Look at the business in light of consumer or economic trends; for example, if you are considering a store that sells products based on a fad like yoga, will that client base still be intact five or ten years later? Or if the company relies on just a few major clients, can you be sure they will stay with you after the deal is closed?

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**WARNING**

Who are the business’s employees? Beware, if it’s a family-run operation: Salaries may be unrealistically low, resulting in a bottom line that’s unrealistically high.
**Law and Order**

While you and your accountant review key financial ratios and performance figures, you and your attorney should investigate the business’s legal status. Look for liens against the property, pending lawsuits, guarantees, labor disputes, potential zoning changes, new or proposed industry regulations or restrictions, and new or pending patents; all these factors can seriously affect your business. Be sure to:

- Conduct a uniform commercial code search to uncover any recorded liens (start with city hall and check with the department of public records).
- Ask the business’s attorneys for a legal history of the company, and read all old and new contracts.
- Review related pending state and federal legislation, local zoning regulations and patent histories.

Legal liabilities in business take many forms and may be hidden so deeply that even the seller honestly doesn’t know they exist. How do you protect yourself? First, have your lawyer add a “hold harmless and indemnify” clause to the contract. This assures you’re protected from the consequences of the seller’s previous actions as owner.

Second, make sure your deal allows you to take over the seller’s existing insurance policies on an interim basis. This gives you time to review your insurance needs at greater leisure while still making sure you have basic coverage from the minute you take over. The cost of having a lawyer evaluate a business depends on your relationship with the lawyer, the complexity of the business and the stage at which the lawyer gets involved. Generally, costs range from $3,000 to as much as $35,000 for a comprehensive appraisal.

If you’re considering buying a business that has valuable intellectual property, such as a patent, trade secret or brand name, you may
want an intellectual property attorney to evaluate it. Generally, this will cost from 0.5 percent to 3 percent of the business’s total selling cost.

**The Art of the Deal**

If your financial and legal assessments show that the business is a good buy, don’t be the first person to bring up the subject of price. Let the seller name the figure first, and then proceed from there.

Deciding on a price, however, is just the first step in negotiating the sale. More important is how the deal is structured. David H. Troob, founder of D. H. Troob & Co., a New York brokerage and investment firm, suggests you should be ready to pay 20 to 50 percent of the price in cash and finance the remaining amount.

You can finance through a traditional lender, or sellers may agree to “hold a note,” which means they accept payments over a period of time, just as a lender would. Many sellers like this method because it assures them of future income. Other sellers may agree to different terms—for example, accepting benefits such as a company car for a period of time after the deal is completed. These methods can cut down the amount of upfront cash you need; however, you should always have an attorney review any arrangements for legality and liability issues. (For more ideas on financing your purchase, see “Let’s Make a Deal” on page 47.)

An individual purchasing a business has two options for structuring the deal (assuming the transaction is not a merger). The first is asset acquisition, in which you purchase only those assets you want. On the plus side, asset acquisition protects you from unwanted legal liabilities since instead of buying the corporation (and all its legal risks), you are buying only its assets.

On the downside, an asset acquisition can be very expensive. The asset-by-asset purchasing process is complicated and also opens the possibility that the seller may raise the price of desirable assets to offset losses from undesirable ones.

The other option is stock acquisition, in which you purchase stock. Among other things, this means you must be willing to purchase all the business’s assets—and assume all its liabilities.
The final purchase contract should be structured with the help of your acquisition team to reflect very precisely your understanding and intentions regarding the purchase from a financial, tax and legal standpoint. The contract must be all-inclusive and should allow you to rescind the deal if you find at any time that the owner intentionally misrepresented the company or failed to report essential information. It’s also a good idea to include a noncompete clause in the contract to ensure the seller doesn’t open a competing operation down the street.

Remember, you have the option to walk away from a negotiation at any point in the process if you don’t like the way things are going. If you don’t like the deal, don’t buy. Just because you spent a month looking at something doesn’t mean you have to buy it. You have no obligation.

**Transition Time**

The transition to new ownership is a big change for employees of a small business. To ensure a smooth transition, start the process before the deal is done. Make sure the owner feels good about what is going to happen to the business after he or she leaves. Spend some time talking to the key employees, customers and suppliers before you take over; tell them about your plans and ideas for the business’s future. Getting these key players involved and on your side makes running the business a lot easier.

Most sellers will help you in a transition period during which they train you in operating the business. This period can range from a few weeks to six months or longer. After the one-on-one training period, many sellers will agree to be available for phone consultation for another period of time. Make sure you and the seller agree on how this training will be handled, and write it into your contract.
If you buy the business lock, stock and barrel, simply putting your name on the door and running it as before, your transition is likely to be fairly smooth. On the other hand, if you buy only part of the business’s assets, such as its client list or employees, and then make a lot of changes in how things are done, you’ll probably face a more difficult transition period.

Many new business owners have unrealistically high expectations that they can immediately make a business more profitable. Of course, you need a positive attitude to run a successful business, but if your attitude is “I’m better than you,” you’ll soon face resentment from the employees you’ve acquired.

Instead, look at the employees as valuable assets. Initially, they’ll know far more about the business than you will; use that knowledge to get yourself up to speed, and treat them with respect and appreciation. Employees inevitably feel worried about job security when a new owner takes over. That uncertainty is multiplied if you don’t tell them what your plans are. Many new bosses are so eager to start running the show, they slash staff, change prices or make other radical changes without giving employees any warning. Involve the staff in your planning, and keep communication open so they know what is happening at all times. Taking on an existing business isn’t easy, but with a little patience, honesty and hard work, you’ll soon be running things like a pro.

Buying a Franchise

If buying an existing business doesn’t sound right for you but starting from scratch sounds a bit intimidating, you could be suited for franchise
ownership. What is a franchise—and how do you know if you’re right for one? Essentially, a franchisee pays an initial fee and ongoing royalties to a franchisor. In return, the franchisee gains the use of a trademark, ongoing support from the franchisor, and the right to use the franchisor’s system of doing business and sell its products or services.

McDonald’s, perhaps the most well-known franchise company in the world, illustrates the benefits of franchising: Customers know they will get the same type of food, prepared the same way, whether they visit a McDonald’s in Moscow or Minneapolis. Customers feel confident in McDonald’s, and as a result, a new McDonald’s location has a head start on success compared to an independent hamburger stand.

In addition to a well-known brand name, buying a franchise offers many other advantages that are not available to the entrepreneur starting a business from scratch. Perhaps the most significant is that you get a proven system of operation and training in how to use it. New franchisees can avoid a lot of the mistakes startup entrepreneurs typically make because the franchisor has already perfected daily routine operations through trial and error.

Reputable franchisors conduct market research before selling a new outlet, so you can feel greater confidence that there is a demand for the product or service. Failing to do adequate market research is one of the biggest mistakes independent entrepreneurs make; as a franchisee, it’s done for you. The franchisor also provides you with a clear picture of the competition and how to differentiate yourself from them.

Finally, franchisees enjoy the benefit of strength in numbers. You gain from economies of scale in buying materials, supplies and services,
such as advertising, as well as in negotiating for locations and lease terms. By comparison, independent operators have to negotiate on their own, usually getting less favorable terms. Some suppliers won’t deal with new businesses or will reject your business because your account isn’t big enough.

Is Franchising Right for You?

An oft-quoted saying about franchising is that it puts you in business “for yourself, but not by yourself.” While that support can be helpful, for some entrepreneurs, it can be too restricting. Most franchisors impose strict rules on franchisees, specifying everything from how you should greet customers to how to prepare the product or service.

That’s not to say you will be a mindless drone—many franchisors welcome franchisees’ ideas and suggestions on how to improve the way business is done—but, for the most part, you will need to adhere to the basic systems and rules set by the franchisor. If you are fiercely independent, hate interference and want to design every aspect of your new business, you may be better off starting your own company or buying a business opportunity (see the “Buying a Business Opportunity” section starting on page 65 for more details).

More and more former executives are buying franchises these days. For many of them, a franchise is an excellent way to make the transition to business ownership. As an executive, you were probably used to delegating tasks like ordering supplies, answering phones and handling word processing tasks. The transition to being an entrepreneur and doing everything for yourself can be jarring. Buying a franchise could offer the support you need in making the switch to entrepreneurship.
**Do Your Homework**

Once you’ve decided a franchise is the right route for you, how do you choose the right one? With so many franchise systems to choose from, the options can be dizzying. Start by investigating various industries that interest you to find those with growth potential. Narrow the choices down to a few industries you are most interested in; then analyze your geographic area to see if there is a market for that type of business. If so, contact all the franchise companies in those fields and ask them for information. Any reputable company will be happy to send you information at no cost.

Of course, don’t rely solely on these promotional materials to make your decision. You also need to do your own detective work. Start by going online to look up all the magazine and newspaper articles you can find about the companies you are considering as well as checking out *Entrepreneur* magazine’s FranchiseZone (entrepreneur.com/franchise). Is the company depicted favorably? Does it seem to be well-managed and growing?

Check with the consumer or franchise regulators in your state to see if there are any serious problems with the company you are considering. If the company or its principals have been involved in lawsuits or bankruptcies, try to determine the nature of the lawsuits: Did they involve fraud or violations of FTC regulatory laws? To find out, call the court that handled the case and request a copy of the petition or judgment.

If you live in one of the 15 states that regulate the sale of franchises (California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Oregon, Rhode Island, South Dakota, Virginia, Washington and Wisconsin), contact the state franchise authority, which can tell you if the company has complied with state registration requirements. If the company is registered with D&B, request a *D&B Report*, which will give you details on the company’s financial standing, payment promptness and other information. And, of course, it never hurts to check with your local office of the Better Business Bureau for complaints against the company.
Does the company still sound good? That means your investigation is just beginning. If you have not already received one, contact the franchisor again and ask for a copy of its Franchise Disclosure Document, or FDD (previously known as a Uniform Franchise Offering Circular, or UFOC). This disclosure document must, by law, be given to all prospective franchisees 10 business days before any agreement is signed. If changes are made to the FDD, an additional five days are added to the 10-day “cooling off” period. If a company says it is a franchise but will not give you an FDD, then contact the FTC—and take your business elsewhere.

The FDD is a treasure trove of information for those who are serious about franchising. It contains an extensive written description of the company, the investment amount and fees required, any litigation and/or bankruptcy history of the franchisor and its officers, the trademark you will be licensed to use, the products you are required to purchase, the advertising program, and the contractual obligations of both franchisor and franchisee. It specifies how much working capital is required, equipment needs and ongoing royalties. It also contains a sample copy of the franchise agreement you will be asked to sign should you buy into the system, as well as three years’ worth of the franchisor’s audited financial statements.

The FDD has been revamped to make it less “legalistic” and more readable, so there is no excuse for failing to read yours very carefully. Before you make any decisions about purchasing the franchise, your attorney and accountant should read it as well.

Exaggerated profit claims are common in franchise and business opportunity sales. Is a company promising you will make $10,000 a month in your spare time? If it is a franchise, any statement about earnings (regarding others in the system or your potential earnings) must appear in the Franchise Disclosure Document (FDD). Read the FDD and talk to five franchise owners who have attained the earnings claimed.
## Franchise Evaluation Worksheet

This will help you determine the attractiveness of each franchise you’re considering. Assign each franchise a column letter. Answer each question along the left-hand side by assigning a rating of 1 to 3, with 3 being the strongest. Total each column after you’ve finished. The franchise with the highest score is the most attractive.

<table>
<thead>
<tr>
<th>Franchise</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
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<tbody>
<tr>
<td><strong>The Franchise Organization</strong></td>
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<tr>
<td>Does the franchisor have a good track record?</td>
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<td>Do the principals of the franchise have expertise in the industry?</td>
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<td>Rate the franchisor’s financial condition.</td>
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<td>How thoroughly does the franchisor check out its prospective franchisees?</td>
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<td>Rate the profitability of the franchisor and its franchisees.</td>
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<td><strong>The Product or Service</strong></td>
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<td>Is there demand for the product or service?</td>
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<td>Can the product or service be sold year-round?</td>
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<td>Are industry sales strong?</td>
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<td>Rate the product or service in comparison with the competition.</td>
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<td>Is the product or service competitively priced?</td>
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<tr>
<td>What is the potential for industry growth?</td>
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<td><strong>The Market Area</strong></td>
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<tr>
<td>Are exclusive territories offered?</td>
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### Franchise Evaluation Worksheet, continued

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<tr>
<th>Franchise</th>
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<tr>
<td>Rate the sales potential of the territory you are considering.</td>
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<tr>
<td>How successful are franchises in close proximity to this area?</td>
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<tr>
<td><strong>The Contract</strong></td>
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<tr>
<td>Are the fees and royalties associated with the franchise reasonable?</td>
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<td>How attractive are the renewal, termination and transfer conditions?</td>
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<tr>
<td><strong>Franchisor Support</strong></td>
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<tr>
<td>If the franchisor requires you to purchase proprietary inventory, how useful is it?</td>
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<tr>
<td>If the franchisor requires you to meet annual sales quotas, are they reasonable?</td>
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<tr>
<td>Does the franchisor help with site selection, lease negotiations and store layout?</td>
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<td>Does the franchisor provide ongoing training?</td>
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<td>Does the franchisor provide financing to qualified individuals?</td>
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<tr>
<td>Are manuals, sales kits, accounting systems and purchasing guides supplied?</td>
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<tr>
<td>How strong are the franchisor’s advertising and promotion programs?</td>
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<tr>
<td>Does the franchisor have favorable national supplier contracts?</td>
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<tr>
<td><strong>Totals</strong></td>
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Franchise and business opportunity trade shows can be a great opportunity to explore business investment packages. Attending one is exciting—and overwhelming—so you need to prepare carefully.

**Before the show:**

- Consider what you are seeking from a business investment. Part time or full time? What type of business do you think you would enjoy? Consider your hobbies and passions.

- Figure out your financial resources. What is liquid, what can you borrow from family and friends, and how much do you need to live on while initially running the business? What are your financial goals for the business?

- Get serious. Dress conservatively, carry a briefcase, leave the kids at home, and take business cards if you have them. Show the representatives you meet that you are a serious prospect.

**At the show:**

- Take a moment to study the floor plan of the exhibitors listed. Circle the businesses you recognize or that look interesting. Make sure you stop by these booths during your visit.

- Don’t waste time. Pass by the sellers who are out of your price range or do not meet your personal goals. Have a short list of questions ready to ask the others:

  1. What is the total investment?

  2. Tell me about a franchisee’s typical day.

  3. What arrangements are made for product supply?
Calling All Franchisees

One of the most important parts of the FDD is a listing of existing franchisees as well as franchisees who’ve been terminated or have chosen not to renew. Both lists will include addresses and phone numbers. If the list of terminated franchisees seems unusually long, it could be an indication that there’s some trouble with the franchisor. Call the former franchisees, and ask them why the agreement was terminated, whether the franchisee wasn’t making the grade, or whether he or she had some type of grievance with the franchisor.

Next, choose a random sample of current franchisees to interview in person. This is perhaps the most important step in your research. Don’t rely on a few carefully selected names the franchisor gives you; pick your own candidates to talk to.
Visit current franchisees at their locations. Talking to existing franchisees is often the best way to find out how much money individual stores actually make. You’ll also find out what their typical day is like, whether they enjoy what they do and whether the business is challenging enough. Most will be open about revealing their earnings and their satisfaction with the franchisor; however, the key to getting all the information you need before buying is asking the right questions. Here are some ideas to help get you started:

- Was the training the franchisor offered helpful in getting the business off the ground?
- Is the franchisor responsive to your needs?
- Tell me about a typical day for you.
- Have there been problems you did not anticipate?
- Has your experience proved that the investment and cost information in the FDD were realistic?
- Is the business seasonal? If so, what do you do to make ends meet in the off-season?
- Have sales and profits met your expectations? Tell me about the numbers in the business.
- Are there expansion opportunities for additional franchise ownership in this system?
- If you knew what you know now, would you make this investment again?

Since running a franchise involves an ongoing relationship with the franchisor, be sure to get the details on the purchasing process—everything that happened from the day the franchisee signed the agreement to the end of the first year in business. Did the parent company follow through on its promises?

“Starting a company is the best stage of a startup. There’s the creative aspect. You also have to articulate your idea. There are a million things going on.”

-Katrina Garnett, Founder of Crossroads Software
Talk to as many franchisees as you can—a broader perspective will give you a more accurate picture of the company. Take careful notes of the conversations so you can refer to them later. Don’t hesitate to ask about sensitive topics. One of the most important questions a prospective franchisee should ask, but rarely does, is “What conflicts do you have with the franchisor?” Even established, successful companies have conflicts. What you need to find out is how widespread and common those conflicts are.

Talking to franchisees can also give you something you won’t get anywhere else: a feeling for what it’s like to run this business day to day. Thinking solely in economic terms is a mistake if you end up with a franchise that doesn’t suit your lifestyle or self-image. When you envision running a restaurant franchise, for instance, you may be thinking of all the money you’re going to make. Talking to franchisees can bring you back to reality—which is a lot more likely to involve manning a fry station, disciplining employees and working late than cruising around in your Ferrari. Talking to franchisees in a variety of industries can help you make a choice that fits your lifestyle.

Many franchisees and franchising experts say there’s no better way to cap off your research than by spending time in a franchisee location to see what your life will be like. Buyers should spend at least one week working in a unit. This is the best way for the franchisor and franchisee to evaluate each other. Offer to work for free. If the franchisor doesn’t want you to, you should be skeptical about the investment.

When all your research is completed, the choice between two equally sound franchises often comes down to your gut instinct. That’s why talking to franchisees and visiting locations is so important in the selection process.
Proven Purchase

Buying a franchise can be a good way to lessen the risk of business ownership. Some entrepreneurs cut that risk still further by purchasing an existing franchise—one that is already up and running. Not only does an existing franchise have a customer base, but it also has a management system already in place and ongoing revenues. In short, it already has a foundation—something that is very attractive to a lot of entrepreneurs.

Finding existing franchisees who are willing to sell is simply a matter of asking the parent company what's available. You can also check local classified ads, or visit Franchising.com, which lists thousands of businesses for sale.

Once you have found some likely candidates, the investigation process combines the same steps used in buying an existing business with those used in buying a franchise. (For a list of questions to ask before purchasing an existing business, refer to the checklist on page 44.) The good news, however, is that you’ll get far more detailed financial information than you would when assessing a franchise company. Where other potential franchisees just get vague suggestions of potential earnings, you’ll get hard facts.

Of course, there is a price to pay for all the advantages of buying an existing franchise: It is generally much more costly. In fact, the purchase price of an existing location can be two to four times more than what you would pay for a new franchise from the same company. Because you are investing more money, it is even more important to make sure you have audited financial statements and to review them with your CPA.

Once in a while, you’ll find a franchise that isn’t doing well. Perhaps the current owner isn’t good at marketing, isn’t putting forth enough effort or isn’t following the system correctly. In this case, you may be able to get the existing franchise for what it would cost to buy a new franchise—or even less. It’s crucial, however, to make sure the problem is something you can correct and that you’ll be able to get the location up to speed fast. After all, you’re going to have immediate
overhead expenses—for employees, royalties and operating costs—so you need some immediate income as well.

Also be aware that even if a particular franchise location is thriving, it does not necessarily mean the parent company is equally successful. In fact, sometimes franchisees who know the parent company is in trouble will try to unload their franchises before the franchisor goes under. Carefully assess the franchisor’s strength, accessibility and the level of assistance they provide. Do not settle for anything less than you would when buying a new franchise.

**Buying a Business Opportunity**

If a franchise sounds too restrictive for you but the idea of coming up with your own business idea, systems and procedures sounds intimidating, there is a middle ground: business opportunities.

A business opportunity, in the simplest terms, is a packaged business investment that allows the buyer to begin a business. (Technically, all franchises are business opportunities, but not all business opportunities are franchises.)

Unlike a franchise, however, the business opportunity seller typically exercises no control over the buyer’s business operations. In fact, in most business opportunity programs, there is no continuing relationship between the seller and the buyer after the sale is made.

Although business opportunities offer less support than franchises, this could be an advantage for you if you thrive on freedom. Typically, you will not be obligated to follow the strict specifications and detailed program that franchisees must follow. With most business opportunities, you would simply buy a set of equipment or materials, and then you can operate the business any way and under any name you want.
There are no ongoing royalties in most cases, and no trademark rights are sold.

However, this same lack of long-term commitment is also a business opportunity’s chief disadvantage. Because there is no continuing relationship, the world of business opportunities does have its share of con artists who promise buyers instant success, then take their money and run. While increased regulation of business opportunities has dramatically lessened the likelihood of rip-offs, it is still important to investigate an opportunity thoroughly before you invest any money.

**Legal Matters**

In general, a business opportunity refers to one of a number of ways to get into business. These include the following:

- **Dealers/distributors** are individuals or businesses that purchase the right to sell ABC Corp.’s products but not the right to use ABC’s trade name. For example, an authorized dealer of Minolta products might have a Minolta sign in his window, but he can’t call his business Minolta. Often, the words “dealers” and “distributors” are used interchangeably, but there is a difference: A distributor may sell to several dealers, while a dealer usually sells direct to retailers or consumers.

- **Licensees** have the right to use the seller’s trade name and certain methods, equipment, technology or product lines. If Business Opportunity XYZ has a special technique for reglazing porcelain, for instance, it will teach you the method and sell you the supplies and machinery needed to open your own business. You can call your business XYZ, but you are an independent licensee.

- **Vending machines** are provided by the seller, who may also help you find locations for them. You restock your own machines and collect the money.

- **Cooperatives** allow an existing business to affiliate with a network of similar businesses, usually for advertising and promotional purposes.
Direct sales is a type of business opportunity that is very popular with people looking for part-time, flexible businesses. Some of the best-known companies in America, including Avon, Mary Kay Cosmetics and Tupperware, fall under the direct-selling umbrella.

Direct-selling programs feature a low upfront investment—usually only a few hundred dollars for the purchase of a product sample kit—and the opportunity to sell a product line directly to friends, family and other personal contacts. Most direct-selling programs also ask participants to recruit other sales representatives. These recruits constitute a rep’s “down-line,” and their sales generate income for those above them in the program.

Things get sticky when a direct sales network compensates participants primarily for recruiting others rather than for selling the company’s products or services. A direct-selling system in which most of the revenues come from recruitment may be considered an illegal pyramid scheme.

Since direct-selling programs are usually exempt from business opportunity regulation and are not defined as franchises under state and federal franchise laws, you will need to do your own investigation before investing any money. For more information, check out the Direct Selling Association’s website at dsa.org.

Legal definitions of business opportunities vary, since not all states regulate business opportunities. (The 26 that do are Alaska, California, Connecticut, Florida, Georgia, Illinois, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Nebraska, New Hampshire, North Carolina, Ohio, Oklahoma, South Carolina, South Dakota, Texas, Utah, Virginia, Washington and...
Wisconsin.) Even among these, different states have different definitions of what constitutes a business opportunity. According to franchise law counsel Joel R. Buckberg, an attorney in Nashville, Tennessee, most definitions contain the following:

■ The investor enters into an oral or written agreement for the vendor—or someone recommended by the vendor—to sell goods or services to the investor that allow him or her to begin a business.

■ The purchase involves a certain amount of money. In 15 states and under FTC regulations, the minimum investment is $500; in the other 11 states, that figure drops to as little as $100.

■ The seller makes any one of the following statements to the investor during the course of the sale:
  1. The seller or someone the seller recommends will assist in securing locations for display racks, vending devices, outlets or accounts;
  2. The seller will return the money and repurchase what is sold to or made by the investor if the investor is dissatisfied with the investment;
  3. The seller will buy any or all of the products assembled or produced by the buyer;
  4. The seller guarantees (or, in some states, implies) that the buyer will be able to generate revenues in excess of the amount of the investment paid to the seller; or
  5. The seller will provide a marketing plan or a sales plan for the buyer.

If a seller meets the definition of a business opportunity in states that regulate them, it generally means he or she must register the offering.
with the state authorities and deliver a disclosure document to prospective buyers at least ten business days before the sale is made. (For more information on states’ regulations, check with consumer protection agencies—often a part of the attorney general’s office—in your state.)

**Checking It Out**

Researching a business is a more challenging task than investigating a franchise. And if the business opportunity you are considering does not provide buyers with a disclosure document, you get a lot less information, so you have to do a lot more legwork on your own.

Whenever possible, follow the same steps you would for investigating a franchise. Check out *Entrepreneur* magazine’s BizOpp Zone (entrepreneur.com/bizopp). Contact the Better Business Bureau to see if there have been complaints against the company, and if the company is registered with D&B, a financial report will give you details on its financial standing and other information.

Also check with the regulatory agency—either the Commission of Securities or the Commission of Financial Institutions—in the state where the business opportunity has its headquarters. This will tell you if the company is complying with all state regulations. If you discover the company or its principals have been involved in lawsuits or bankruptcies, try to find out more details. Did the suits involve fraud or violations of regulatory laws? A copy of the petition or judgment, which you can get from the court that handled the case, will give you the answers to these questions.

Finally, see if the business opportunity seller will provide you with a list of people who have purchased the opportunity in the past. Don’t let the seller give you a few

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**WARNING**

Watch out for promises from third-party location hunters. The sales rep may say, “We’ll place those pistachio dispensers in prime locations in your town,” but more likely, you’ll find out that all the best locations are taken, and the next thing you know, your garage is filled with pistachio dispensers. The solution: Get in your car, and check for available locations.
handpicked names; ask for a full list of buyers in your state. Try to track them down, and talk to as many as you can. Were they satisfied with the opportunity? Would they recommend it to friends?

The path to buying a business opportunity is not as clearly defined as the road leading to franchise ownership. The good news, however, is that you have more freedom to make your business opportunity work. More so than with a franchise, the success or failure of your business opportunity depends on you, your commitment to the venture and the level of effort you put into it. Put that same effort into finding the right business opportunity program, and your chances of success increase exponentially.
part 2

Choose Your Target
Defining Your Market

chapter 6

If You Build It, Will They Come?
Conducting Market Research

chapter 7

The Name Game
Naming Your Business

chapter 8

Make It Legal
Choosing a Business Structure

chapter 9

Plan of Attack
Creating a Winning Business Plan

chapter 10

Call in the Pros
Hiring a Lawyer and an Accountant

chapter 11
You’ve come up with a great idea for a business . . . but you’re not ready to roll yet. Before you go any further, the next step is figuring out who your market is.

There are two basic markets you can sell to: consumer and business. These divisions are fairly obvious. For example, if you are selling women’s clothing from a retail store, your target market is consumers; if you are selling office supplies, your target market is businesses (this is referred to as “B2B” sales). In some cases—for example, if you run a printing business—you may be marketing to both businesses and individual consumers.

No business—particularly a small one—can be all things to all people. The more narrowly you can define your target market, the better. This process is known as creating a niche and is key to success for even the biggest companies. Walmart and Tiffany are both retailers, but they have very different niches: Walmart
caters to bargain-minded shoppers, while Tiffany appeals to upscale jewelry consumers.

“Many people talk about ‘finding’ a niche as if it were something under a rock or at the end of the rainbow, ready-made. That is nonsense,” says Lynda Falkenstein, author of *Nichecraft: Using Your Specialness to Focus Your Business, Corner Your Market & Make Customers Seek You Out*. Good niches do not just fall into your lap; they must be very carefully crafted.

Rather than creating a niche, many entrepreneurs make the mistake of falling into the “all over the map” trap, claiming they can do many things and be good at all of them. These people quickly learn a tough lesson, Falkenstein warns: “Smaller is bigger in business, and smaller is not all over the map; it’s highly focused.”

**Practicing Nichecraft**

Creating a good niche, advises Falkenstein, involves following a seven-step process:

1. **Make a wish list.** With whom do you want to do business? Be as specific as you can: Identify the geographic range and the types of businesses or customers you want your business to target. If you don’t know whom you want to do business with, you can’t make contact. “You must recognize that you can’t do business with everybody,” cautions Falkenstein. Otherwise, you risk exhausting yourself and confusing your customers.

These days, the trend is toward smaller niches (see “Direct Hit” on page 75). Targeting teenagers isn’t specific enough; targeting male, African American teenagers with family incomes of...
Once upon a time, business owners thought it was enough to market their products or services to “18-to-49-year-olds.” Those days are things of the past. According to trend experts, the consumer marketplace has become so differentiated, it’s a misconception to talk about the marketplace in any kind of general, grand way. You can market to socioeconomic status or to gender or to region or to lifestyle or to technological sophistication. There’s no end to the number of different ways you can slice the pie.

Further complicating matters, age no longer means what it used to. Fifty-five-year-old baby boomers prefer rock ‘n’ roll to Geritol; 30-year-olds may still be living with their parents. People now repeat stages and recycle their lives. You can have two men who are 64 years old, and one is retired and driving around in a Winnebago, and the other is just remarried with a toddler in his house.

Generational marketing, which defines consumers not just by age, but also by social, economic, demographic and psychological factors, has been used since the early ’80s to give a more accurate picture of the target consumer.

A more recent twist is cohort marketing, which studies groups of people who underwent the same experiences during their formative years. This leads them to form a bond and behave differently from people in different cohorts, even when they are similar in age. For instance, people who were young adults in the Depression era behave differently from people who came of age during World War II, even though they are close in age.

To get an even narrower reading, some entrepreneurs combine cohort or generational marketing with life stages, or what people are doing at a
certain time in life (getting married, having children, retiring), and physio-
graphics, or physical conditions related to age (nearsightedness, arthritis,
menopause).

Today’s consumers are more marketing-savvy than ever before and don’t
like to be “lumped” with others—so be sure you understand your niche.
While pinpointing your market so narrowly takes a little extra effort,
entrepreneurs who aim at a smaller target are far more likely to make a
direct hit.

$40,000 and up is. Aiming at companies that sell software is too
broad; aiming at Northern California-based companies that
provide internet software sales and training and have sales of
$15 million or more is a better goal.

2. **Focus.** Clarify what you want to sell, remembering: a) You can’t
be all things to all people and b) “smaller is bigger.” Your niche
is not the same as the field in which you work. For example, a
retail clothing business is not a niche but a field. A more specific
niche may be “maternity clothes for executive women.”

To begin this focusing process, Falkenstein suggests using
these techniques to help you:

- Make a list of things you do best and the skills implicit in each
  of them.
- List your achievements.
- Identify the most important lessons you have learned in life.
- Look for patterns that reveal your style or approach to
  resolving problems.

Your niche should arise naturally from your interests and experi-
ence. For example, if you spent ten years working in a consulting
firm, but also spent ten years working for a small, family-owned business, you may decide to start a consulting business that specializes in small, family-owned companies.

3. Describe the customer’s worldview. A successful business uses what Falkenstein calls the Platinum Rule: “Do unto others as they would do unto themselves.” When you look at the world from your prospective customers’ perspective, you can identify their needs or wants. The best way to do this is to talk to prospective customers and identify their main concerns. (Chapter 7 will give you more ideas on ways to get inside customers’ heads.)

4. Synthesize. At this stage, your niche should begin to take shape as your ideas and the client’s needs and wants coalesce to create something new. A good niche has five qualities:

   - It takes you where you want to go—in other words, it conforms to your long-term vision.
   - Somebody else wants it—namely, customers.
   - It’s carefully planned.
   - It’s one-of-a-kind, the “only game in town.”
   - It evolves, allowing you to develop different profit centers and still retain the core business, thus ensuring long-term success.

5. Evaluate. Now it’s time to evaluate your proposed product or service against the five criteria in Step 4. Perhaps you’ll find that the niche you had in mind requires more business travel than you’re ready for. That means it doesn’t fulfill one of the above
Target Market Worksheet

Use the following exercise to identify where and who your target market is. Once you’re done, you’ll have an audience to aim for and hone in on rather than using a shotgun approach, which is a time- and money-waster.

1. Describe the idea:


2. What will the concept be used for?


3. Where are similar concepts used and sold?


4. What places do my prospects go to for recreation?


5. Where do my prospects go for education?


6. Where do my prospects do their shopping?


7. What types of newspapers, magazines and newsletters do my prospects read?


8. What TV and radio stations do my prospects watch and listen to?


criteria—it won’t take you where you want to go. So scrap it, and move on to the next idea.

6. Test. Once you have a match between niche and product, test-market it. “Give people an opportunity to buy your product or service—not just theoretically but actually putting it out there,”
suggests Falkenstein. This can be done by offering samples, such as a free miniseminar or a sample copy of your newsletter. The test shouldn’t cost you a lot of money: “If you spend huge amounts of money on the initial market test, you are probably doing it wrong,” she says.

7. Go for it! It’s time to implement your idea. For many entrepreneurs, this is the most difficult stage. But fear not: If you did your homework, entering the market will be a calculated risk, not just a gamble.

Keep It Fresh

Once your niche is established and well-received by your market, you may be tempted to rest on your laurels. Not a good idea, says Falkenstein. “[Y]ou must] keep growing by reniching. This doesn’t mean totally changing your focus, but rather further adapting it to the environment around you.”

Ask yourself the following questions when you think you have found your niche—and ask them again every six months or so to make sure your niche is still on target:

■ Who are your target clients?
■ Who aren’t your target clients?
■ Do you refuse certain kinds of business if it falls outside your niche?
■ What do clients think you stand for?
■ Is your niche in a constant state of evolution?
■ Does your niche offer what prospective customers want?
■ Do you have a plan and delivery system that effectively conveys the need for your niche to the right market?
■ Can you confidently predict the life cycle of your niche?

“If you work just for the money, you’ll never make it, but if you love what you’re doing and you always put the customer first, success will be yours.”

—Ray Kroc, founder of McDonald’s Corp.
How can your niche be expanded into a variety of products or services that act as profit centers?

Do you have a sense of passion and focused energy with respect to your niche?

Does your niche feel comfortable and natural?

How will pursuing your niche contribute to achieving the goals you have set for your business?

According to Falkenstein, “Creating a niche is the difference between being in business and not being in business. It’s the difference between surviving and thriving, between simply liking what you do and the joy of success.”

On a Mission

Once you have designed a niche for your business, you’re ready to create a mission statement. A key tool that can be as important as your business plan, a mission statement captures, in a few succinct sentences, the essence of your business’s goals and the philosophies underlying them. Equally important, the mission statement signals what your business is all about to your customers, employees, suppliers and the community.

The mission statement reflects every facet of your business: the range and nature of the products you offer, pricing, quality, service, marketplace position, growth potential, use of technology, and your relationships with your customers, employees, suppliers, competitors and the community.

“Mission statements help clarify what business you are in, your goals and your objectives,” says Rhonda Abrams, author of The Successful Business Plan: Secrets and Strategies.

Your mission statement should reflect your business’ special niche. However, studying other companies’ statements can fuel your creativity. One sample mission statement Abrams developed:

*AAA Inc. is a spunky, imaginative food products and service company aimed at offering high-quality, moderately priced, occasionally unusual foods using only natural ingredients. We view ourselves as*
Looking for a niche? One market many entrepreneurs ignore is the lucrative procurement pie. Although the federal government is by far the biggest customer in this arena, local governments, colleges and universities, school districts, nonprofit organizations, public utilities and corporations also have plenty of procurement opportunities available. The federal government’s civilian agencies alone buy products in more than 4,000 categories, ranging from air brakes to zippers.

Contrary to what you might imagine, small businesses often have an edge in competing for procurement dollars. Government rules and regulations are designed to promote fair competition and a level playing field. And government agencies and large contractors are often required by law to give a certain amount of business to small, disadvantaged, women-owned or minority-owned businesses.

How to get started?

- Check out the SBA’s subcontracting opportunities at web.sba.gov/subnet.

- Agencies like the U.S. Postal Service, Department of Interior and the Army, as well as many others, send out solicitations to businesses that are on their mailing lists. To find out how to get on the lists, contact the agency you’re interested in.

- Regularly check “Federal Business Opportunities” online for daily updates (fedbizopps.gov); printed versions can also be found at many local libraries.

If you are a woman or a member of a minority group, you will need to be certified as a woman- or minority-owned business to work with government agencies and many large contractors. This can be done in several
partners with our customers, our employees, our community and our environment. We aim to become a regionally recognized brand name, capitalizing on the sustained interest in Southwestern and Mexican food. Our goal is moderate growth, annual profitability and maintaining our sense of humor.

Or consider the statement one entrepreneur developed for her consulting business: “ABC Enterprises is a company devoted to developing human potential. Our mission is to help people create innovative solutions and make informed choices to improve their lives. We motivate and encourage others to achieve personal and professional fulfillment. Our motto is: Together, we believe that the best in each of us enriches all of us.”

**The Write Words**

To come up with a statement that encompasses all the major elements of your business, start with the right questions. Business plan consultants say the most important question is, What business are you in? Since ways. Many cities have their own certification programs or can direct you to the certification programs that they accept. A good general place to start is with the SBA; you can reach them at 409 Third St. SW, Washington, DC 20416, or call (800) U-ASK-SBA.
you have already gone through the steps of creating your niche, answering this question should be easy for you.

Answering the following ten questions will help you to create a verbal picture of your business’s mission:

1. *Why are you in business?* What do you want for yourself, your family and your customers?
   Think about the spark that ignited your decision to start a business. What will keep it burning?

2. *Who are your customers?* What can you do for them that will enrich their lives and contribute to their success—now and in the future?

3. *What image of your business do you want to convey?* Customers, suppliers, employees and the public will all have perceptions of your company. How will you create the desired picture?

4. *What is the nature of your products and services?* What factors determine pricing and quality? Consider how these relate to the reasons for your business’s existence. How will all this change over time?

5. *What level of service do you provide?* Most companies believe they offer “the best service available,” but do your customers agree? Don’t be vague; define what makes your service so extraordinary.

6. *What roles do you and your employees play?* Wise captains develop a leadership style that organizes, challenges and recognizes employees.

7. *What kind of relationships will you maintain with suppliers?* Every business is in partnership with its suppliers. When you succeed, so do they.

8. *How do you differ from competitors?* Many entrepreneurs forget they are pursuing the same dollars as their competitors. What do you do better, cheaper or faster than competitors? How can you use competitors’ weaknesses to your advantage?

9. *How will you use technology, capital, processes, products and services to reach your goals?* A description of your strategy will keep your energies focused on your goals.
10. *What underlying philosophies or values guided your responses to the previous questions?* Some businesses choose to list these separately. Writing them down clarifies the “why” behind your mission.

**Putting It All Together**

Crafting a mission statement requires time, thought and planning. However, the effort is well worth it. In fact, most startup entrepreneurs discover that the process of crafting the mission statement is as beneficial as the final statement itself. Going through the process will help you solidify the reasons for what you are doing and clarify the motivations behind your business.

Here are some tips to make your mission statement the best it can be:

- **Involve those connected to your business.** Even if you are a sole proprietor, it helps to get at least one other person’s ideas for your mission statement. Other people can help you see strengths, weaknesses and voids you might miss. If you have no partners or investors to include, consider knowledgeable family members and close friends, employees or accountants. Be sure, however, to pick only positive, supportive people who truly want you to succeed.

- **Set aside several hours—a full day, if possible—to work on your statement.** Mission statements are short—typically more than one sentence but rarely exceeding a page. Still, writing one is not a short process. It takes time to come up with language that simultaneously describes an organization’s heart and soul and serves as an inspirational beacon to everyone involved in the

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**TIP**

When it comes to mission statements, employees are number one. It’s more important to communicate your mission statement to employees than to your customers. The most effective mission statements are developed strictly for internal communication and discussion. In other words, your mission statement doesn’t have to be clever or catchy—just accurate.
business. Large corporations often spend an entire weekend crafting a statement.

- **Plan a date.** Set aside time to meet with the people who’ll be helping you. Write a list of topics to discuss or think about. Find a quiet, comfortable place away from phones and interruptions.

- **Be prepared.** If you have several people involved, be equipped with refreshments, extra lists of topics, paper and pencils. Because not everyone understands what a mission statement is about, explain its meaning and purpose before you begin.

- **Brainstorm.** Consider every idea, no matter how silly it sounds. Stimulate ideas by looking at sample mission statements and thinking about or discussing the 10 questions starting on page 84. If you’re working with a group, use a flip chart to record responses so everyone can see them. Once you’ve finished brainstorming, ask everyone to write individual mission statements for your business. Read the statements, select the best bits and pieces, and fit them together.

- **Use “radiant words.”** Once you have the basic idea in writing, polish the language of your mission statement. “Every word counts,” says Abrams. The statement should create dynamic, visual images and inspire action. Use offbeat, colorful verbs and adjectives to spice up your statement. Don’t hesitate to drop in words like “kaleidoscope,” “sizzle,” “cheer,” “outrageous” and “marvel” to add zest. If you want customers to “boast” about your goods and services, say so—along with the reasons why. Some businesses include a glossary that defines the terms used in the statement.

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**TIP**

Once you’ve drafted your mission statement, you should periodically review and possibly revise it to make sure it accurately reflects your goals as your company and the business and economic climates evolve. To do this, simply ask yourself if the statement still correctly describes what you’re doing.
Once your mission statement is complete, start spreading the word! You need to convey your mission statement to others inside and outside the business to tell everyone you know where you are going and why. Post it in your office, where you, employees and visitors can see it every day. Print it on company materials, such as your brochures and your business plan or even on the back of your business cards.

When you’re launching a new business, you can’t afford to lose sight of your objectives. By always keeping your mission statement in front of you, you’ll keep your goals in mind—and ensure smooth sailing.
S
o you have a great idea for a product—something that’s bound to capture the hearts and minds (and wallets) of consumers everywhere. Or perhaps you have stumbled on a service that isn’t being offered by anyone else—one that is desperately needed. This is your opportunity! Don’t hesitate . . . don’t look back . . . jump right into it and . . .

Wait! Before you shift into high gear, you must determine whether there really is a market for your product or service. Not only that, you need to ascertain what—if any—fine-tuning is needed. Quite simply, you must conduct market research.

Many business owners neglect this crucial step in product development for the sole reason that they don’t want to hear any negative feedback. They are convinced their product or service is perfect just the way it is, and they don’t want to risk tampering with it.
Other entrepreneurs bypass market research because they fear it will be too expensive. With all the other startup costs you’re facing, it’s not easy to justify spending money on research that will only prove what you knew all along: Your product is a winner.

Regardless of the reason, failing to do market research can amount to a death sentence for your product. “A lot of companies skim over the important background information because they’re so interested in getting their product to market,” says Donna Barson, president and owner

“There’s only one boss—the customer.”

-Sam Walton, founder of Walmart

GOOD QUESTION

Whether you hire a professional market research firm or take on the task yourself, your market research should clearly answer the following questions:

- Who will buy my product or service?
- Why will they buy it?
- Where will they buy it—specialty shops, department stores, mail order?
- What do I need to charge to make a healthy profit?
- What products or services will mine be competing with?
- Am I positioning my product or service correctly? (In other words, if there’s a lot of competition, look for a specialized market niche.)
- What government regulations will my product or service be subject to?
of Barson Marketing Inc., a marketing, advertising and public relations consulting firm. “But the companies that do the best are the ones that do their homework.”

Consider market research an investment in your future. If you make the necessary adjustments to your product or service now, you’ll save money in the long run.

**What It Is, What It Does**

What exactly is market research? Simply put, it’s a way of collecting information you can use to solve or avoid marketing problems. Good market research gives you the data you need to develop a marketing plan that really works for you. It enables you to identify the specific segments within a market that you want to target and to create an identity for your product or service that separates it from your competitors. Market research can also help you choose the best geographic location in which to launch your new business.

Before you start your market research, it’s a good idea to meet with a consultant, talk to a business or marketing professor at a local college or university, or contact your local SBA district office. These sources can offer guidance and help you with the first step in market research: deciding exactly what information you need to gather.

As a rule of thumb, market research should provide you with information about three critical areas: the industry, the consumer and the competition.

1. **Industry information.** In researching the industry, look for the latest trends. Compare the statistics and growth in the industry. What areas of the industry appear to be expanding, and

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**TIP**

When doing any type of survey, whether it is a focus group, a questionnaire or a phone survey, pay attention to customers who complain or give you negative feedback. You don’t need to worry about the customers who love your product or service, but the ones who tell you where you’re going wrong provide valuable information to help you improve.
what areas are declining? Is the industry catering to new types of customers? What technological developments are affecting the industry? How can you use them to your advantage? A thriving, stable industry is key; you don’t want to start a new business in a field that is on the decline.

2. **Consumer close-up.** On the consumer side, your market research should begin with a market survey. A thorough market survey will help you make a reasonable sales forecast for your new business. To do a market survey, you first need to determine the market limits or physical boundaries of the area to which your business sells. Next, study the spending characteristics of the population within this location.

   Estimate the location’s purchasing power, based on its per-capita income, its median income level, the unemployment rate, population and other demographic factors. Determine the current sales volume in the area for the type of product or service you will sell.

   Finally, estimate how much of the total sales volume you can reasonably obtain. (This last step is extremely important. Opening your new business in a given community won’t necessarily generate additional business volume; it may simply redistribute the business that’s already there.)

3. **Competition close-up.** Based on a combination of industry research and consumer research, a clearer picture of your competition will emerge. Do not underestimate the number of competitors out there. Keep an eye out for potential future competitors as well as current ones.

   Examine the number of competitors on a local and, if relevant, national scale. Study their strategies and operations. Your analysis should supply a clear picture of potential threats, opportunities, and the weaknesses and strengths of the competition facing your new business.

   When looking at the competition, try to see what trends have been established in the industry and whether there’s an opportunity or
advantage for your business. Use the library, the internet and other secondary research sources described later in this chapter to research competitors. Read as many articles as you can on the companies you will be competing with. If you are researching publicly owned companies,

**KNOW THY ENEMY**

There are two ways to define competitors. One is by strategic groups—competitors who use similar marketing strategies, sell similar products or have similar skills. Under this definition, you might group Toyota and Nissan as competitors within the car industry.

The second, less obvious way to group competitors is by customer—how strongly do they compete for the same customers’ dollar? Using this method gives you a wider view of your competitors and the challenges they could pose to your new business.

Suppose you’re considering opening a family entertainment center. If there are no other family entertainment centers in the area, you might think you have no competitors. Wrong! Any type of business that competes for customers’ leisure time and entertainment dollars is a competitor. That means children’s play centers, amusement parks and arcades are all your competitors. So are businesses that, on the surface, don’t appear similar, like movie theaters, bookstores and shopping malls. You could even face competition from nonprofit entities, like public parks, libraries and beaches. In short, anything that families might do in their leisure time is your “competition.”

Don’t limit yourself to the obvious definitions of competition. Start thinking out of the box . . . and you will be less likely to get sideswiped by an unexpected competitor.
contact them and obtain copies of their annual reports. These often show not only how successful a company is, but also what products or services it plans to emphasize in the future.

One of the best websites for researching the competition is Hoover’s Online (hoovers.com), which, for a fee, provides in-depth profiles of more than 43,000 companies. However, there is also free content available, plus you can try a free trial subscription. You can also gather information on competing businesses by visiting them in person. Take along a questionnaire like the “Sample Market Research Competition Questionnaire” on page 97. This one is for a bar/club, but you can customize it for your particular business.

**WARNING**

Do you know what your competition is up to? If not, you could be headed for trouble. A study by professors at UCLA and Stanford University showed most business owners are clueless about the competition. Almost 80 percent were blind to their opponents’ actions—which can lead to lost customers and market share.

The answer? Role-play. Put yourself in the competitors’ shoes and analyze their strategies. Visit their stores. Use the internet to dig up as much information as you can about them, their tactics and their goals.

**Market Research Methods**

In conducting your market research, you will gather two types of data: primary and secondary. *Primary research* is information that comes directly from the source—that is, potential customers. You can compile this information yourself or hire someone else to gather it for you via surveys, focus groups and other methods. *Secondary research* involves gathering statistics, reports, studies and other data from organizations such as government agencies, trade associations and your local chamber of commerce.

**Secondary Research**

The vast majority of research you can find will be secondary research. While large companies spend huge amounts of money on market
research, the good news is that plenty of information is available for free to entrepreneurs on a tight budget. The best places to start? Your local library and the internet.

Reference librarians at public and university libraries will be happy to point you in the right direction. Become familiar with the business reference section—you’ll be spending a lot of time there. Two good sources to look for: ThomasNet (thomasnet.com), an online resource that connects industrial buyers and sellers, and the Harris InfoSource All-Industries and Manufacturing Directories (harrisinfor.com). Both sources can be found at most libraries, as well as online, and can help you target businesses in a particular industry, read up on competitors or find manufacturers for your product.

To get insights into consumer markets, check out the Statistical Abstract of the United States, which you can find at most libraries. It contains a wealth of social, political and economic data. Ask reference librarians for other resources targeted at your specific business.

**Associations**

Your industry trade association can offer a wealth of information such as market statistics, lists of members, and books and reference materials. Talking to others in your association can be one of the most valuable ways of gaining informal data about a region or customer base.

Look in the Encyclopedia of Associations (Gale Cengage Learning), found in most libraries, to find associations relevant to your industry. You may also want to investigate your customers’ trade associations for information that can help you market to them. Most trade associations provide information free of charge.

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**e-FYI**

In the business of e-commerce? ComScore (comscore.com) is a market research company that will evaluate your e-commerce site. They offer a variety of options, from web-based marketing strategies to custom research. Even if you’re not ready for professional advice, exploring the site will give you an idea of the questions you should be asking in your own research.
Read your trade associations’ publications, as well as those aimed at your target customers, to get an idea of current and future trends and buying patterns. And keep an eye out for more: New magazines and newsletters are launched every year. If you’re not following all of them, you could be missing out on valuable information about new products and your competitors.

**Government Guidance**

Government agencies are an invaluable source of market research, most of it free. Almost every county government publishes population density and distribution figures in widely available census tracts. These publications will show you the number of people living in specific areas, such as precincts, water districts or even ten-block neighborhoods. Some counties publish reports on population trends that show the population ten years ago, five years ago and today. Watch out for a static, declining or small population; ideally, you want to locate where there is an expanding population that wants your products and services.

The U.S. Census Bureau (census.gov) turns out reams of inexpensive or free business information, most of which is available on the internet:

- The Census Bureau’s *State and Metropolitan Area Data Book* offers statistics for metropolitan areas, central cities and counties.
- The *Census Product Update* is a monthly listing of recently released and upcoming products from the U.S. Census Bureau. Sign up for a free e-mail subscription at census.gov.
- *County Business Patterns* is an excellent Census product that reports the number of a given type of business in a county by ZIP code and metropolitan and micropolitan statistical area.
- For breakdowns by geographical area, look to the *Economic Census*, which is published every five years.

Most of these products should be available online or at your local library. If not, contact your nearest Census office for a list of publications and ordering information, or write to the U.S. Census Bureau,
Sample Market Research Competition Questionnaire

When you visit the competing bars in your area, you want to use the information you gather to develop a competitive strategy for your own establishment. Improve on their strengths and capitalize on their weaknesses. Fill out this questionnaire for each of the bars you visit to help you assess your competition and your customers.

1. What type of bar is it? ________________________________

2. What is the concept/theme? ____________________________

3. Does the bar offer a full bar, beer and wine, or just beer? ________

4. Did you have to wait to be seated? How long? ________________

5. How long did it take to get served? ________________________

6. What kind of décor does the bar have? _____________________
Sample Market Research Competition Questionnaire, continued

7. Is the bar clean? ____________________________________________
   
8. Is the layout of the bar and tables efficient? ____________________
   
9. Does the bar serve food? _____________________________________
   
10. If so, what types of food does it have on the menu? ______________
    
11. Does the menu offer enough variety? __________________________
    
12. How would you rate the quality of the drinks? _________________
    
13. How would you rate the quality of the food? _________________
    
14. Does the cost match the quality/quantity of the food and drinks served?
    
15. How do you feel about the bar’s atmosphere? _________________
The U.S. Government has an official web portal that is another good source of information. For instance, at the USA.gov website (usa.gov), you’ll find a section for businesses that is a one-stop link to all the information and service that the federal government provides.
“You must be the change you wish in this world.”

—MAHATMA GHANDI

for the business community. Tax questions? Wondering about how best to deal with all the regulations and red tape? Chances are you’ll find your answers at business.gov by clicking the “Finance and Taxes” link.

Or you might try the Commerce Department’s Economic Indicators web page (economicindicators.gov). Curious if the world is ready to spend money on your exercise equipment for goldfish? Then the Economic Indicators site is for you. Literally every day, they’re releasing key economic indicators from the Bureau of Economic Analysis and the U.S. Census Bureau.

If you’re planning to get into exporting, contact the Department of Commerce’s International Trade Administration (ITA). The ITA publishes several thousand reports and statistical surveys, not to mention hundreds of books on everything American entrepreneurs need to know about exporting. Many of the reports and books are available for downloading immediately from the ITA’s press and publications department (ita.doc.gov). Here you’ll also find information on how to

NETTING INFORMATION

If your market research budget is limited, try CenStats. A free service from the Census Bureau that’s available on the internet, CenStats allows you to access the bureau’s most popular databases and information.

Search by county or ZIP code under “County Business Patterns,” and you’ll get business profiles for an area that include payroll information and business size by industry. Click on “USA Counties” to get counties’ economic and demographic information, including personal income per capita, population size and more.

To test out CenStats, visit censtats.census.gov.
order printed copies, including archived publications. Or if you prefer, call the Trade Information Center at (800) USA-TRADE.

Maps
Maps of trading areas in counties and states are available from chambers of commerce, trade development commissions, industrial development boards and local newspaper offices. These maps show the major areas of commerce and can also help you judge the accessibility of various sites. Access is an important consideration in determining the limits of your market area.

"A recent survey shows . . ." just might be the most overused, misused and abused phrase in modern life. Try hard enough, and you can find a survey to prove that four out of five Americans have been aboard a UFO, think they can flap their arms and fly to the moon, or believe Elvis is alive and living in their spare bedroom. With all the half-baked surveys out there, how do you know what to believe?

First, consider the source. Many surveys are conducted by trade associations, which inevitably are biased in favor of good news. This doesn’t mean trade association surveys are necessarily inaccurate; just keep in mind that they are likely to play up positive results and downplay negative ones. When looking at any survey, consider what the source has to gain from the information presented. Then you’ll have a better idea of whether to take the information with a grain of salt.

Meaningful surveys generally share the following characteristics:

- **Short-term focus.** In general, respondents are more likely to be accurate when they make predictions about the next three to six months.
Colleges and Universities

Local colleges and universities are valuable sources of information. Many college business departments have students who are eager to work in the “real world,” gathering information and doing research at little or no cost.

Finally, local business schools are a great source of experts. Many business professors do consulting on the side, and some will even be

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**SURVEY SAYS . . . , CONTINUED**

When it comes to predicting the long term (a year or more ahead), they’re usually guessing.

- **Adequate sample size.** What constitutes adequate size depends on the topic you’re surveying. In general, the broader the topic, the larger the number of respondents should be. If the survey talks about broad manufacturing trends, for example, it should survey 1,000 companies or more. Also consider where the respondents come from. If you’re starting a small regional business, a large national sample may not be relevant to your needs because the sample size from your area is probably too small to tell you anything about your region.

- **Knowledgeable respondents.** Asking entrepreneurs in the electronics business to forecast the future of the industry obviously carries more weight than asking the same question of teachers or random people on the street.

- **Continual replication.** The best surveys are repeated regularly, using the same methods, so there is a good basis for comparison from survey to survey.

- **Specific information relevant to your business.** In a nutshell, the best surveys are those where respondents answer questions that are narrowly targeted to your region and niche.
happy to offer you marketing, sales, strategic planning or financial information for free. Call professors who specialize in these areas; if they can’t help, they’ll be able to put you in touch with someone who can.

**Community Organizations**
Your local chamber of commerce or business development agency can supply useful information. They are usually free of charge, including assistance with site selection, demographic reports, and directories of local businesses. They may also offer seminars on marketing and related topics that can help you do better research.

**D&B**
Financial and business services firm D&B offers a range of reference sources that can help startups. Some of the information they offer as part of their Sales & Marketing Solutions are directories for career opportunities, consultants, service companies and regional businesses. Visit their website at dnb.com, or call (866) 503-0287 for more information.

- **D&B’s Regional Business Directories** provide detailed information to help identify new business prospects and assess market potential. Besides basic information (telephone number, address and company description), the directories also tell when the company was started, sales volume, number of employees, parent company (if any) and, if it’s a public company, on which exchange it’s traded.
- **D&B’s Million Dollar Database** can help you develop a marketing campaign for B2B sales. The Million Dollar Database lists more than 1.6 million U.S. and Canadian leading public and private
companies and includes information regarding the number of employees, annual sales and ownership type. The database also includes biographical information on owners and officers, giving insight into their backgrounds and business experiences. For more information, go to dnbmdd.com.

**Going Online**

These days, entrepreneurs can conduct much of their market research without ever leaving their computers, thanks to the universe of online services and information. Start with the major consumer online services, which offer access to business databases. You can find everything from headline and business news to industry trends and company-specific business information, such as a firm’s address, telephone number, field of business and the name of the CEO. This information is critical for identifying prospects, developing mailing lists and planning sales calls. Here are a few to get you started:

- **KnowThis.com** (knowthis.com) marketing virtual library includes a tab on the site called “Weblinks” that contains links to a wide variety of market research web resources.
- **BizMiners.com** (bizminers.com) lets you choose national market research reports for 16,000 industries in 300 U.S. markets, local research reports for 16,000 industries in 250 metro markets, or financial profiles for 10,000 U.S. industries. The reports are available online for a nominal cost.
- **MarketResearch.com** (marketresearch.com) has more than 250,000 research reports from hundreds of sources consolidated into one accessible collection that’s updated daily. No subscription fee is required, and you pay only for the parts of the report you need with its “Buy by the Section” feature. After paying,
the information is delivered online to your personal library on the site.

All the sources mentioned earlier (trade associations, government agencies) should also have websites you can visit to get information quickly. For instance, the Census Bureau offers many helpful websites:

- The *American Factfinder* website (factfinder.census.gov) provides excellent access to census information, including a “Maps” feature.

- The *Statistical Abstract of the United States* (census.gov/compendia/statab/) has statistical information from government and private sources compiled by the Census Bureau. It can be downloaded for free at the website.

- The *Census Bureau’s International Database* (census.gov/ipc/www/idb) furnishes data on foreign countries.

If you don’t have time to investigate online services yourself, consider hiring an information broker to find the information you need. Information brokers gather information quickly. They can act as a small company’s research arm, identifying the most accurate and cost-effective information sources.

To find information brokers, look in the Yellow Pages or ask the research librarian at your local library. Many research librarians deal with information brokers and will be able to give you good recommendations.

**Primary Research**

The secondary research you conduct should help you focus your niche and get a better idea of the challenges facing your business. To get a
complete picture of your target market, however, you’ll need to do some primary research as well.

A market research firm can help you if you feel that primary research is too complicated to do on your own. These firms will charge a few thousand dollars or more, but depending on the complexity of the information you need, you may feel this is money well-spent. Your local chamber of commerce can recommend firms or individuals who can conduct market research for smaller businesses on a budget.

If you need assistance but don’t want to spend that kind of cash, you can go to your SBA district office for guidance, and counselors can help you figure out what types of questions you need to ask your target market. As with secondary research, the SBA, SBDCs, colleges and universities are good sources of help with primary research.

20 Questions

Whether you use students, get help from the SBA, use a market research firm or go it alone, there are simple ways you can get primary research information.

■ Focus groups. A focus group consists of 5 to 12 potential customers who are asked their opinions in a group interview. Participants should fit your target market—for example, single men ages 18 to 25, or working mothers. To find participants, just go to your local mall or college campus and ask people fitting your customer profile if they would answer a few questions. Focus groups typically pay $75 to $100, or more.

Although focus group interviews are informal, you should have a list of questions to help you direct the discussion. Start by asking whether your product or service is one the participants would buy. If so, what is the highest price they would pay? Where would they shop for such a product? Do they like or dislike the product’s packaging? Your questions should center on predetermined objectives, such as determining how high you can price your product or service or what to name your business.
The “Sample Focus Group Questionnaire” on page 109 is for a mail order chocolates company, but you can customize it for your business.

If you’re going the do-it-yourself route, you will probably act as the focus group moderator. Encourage an open-ended flow of conversation; be sure to solicit comments from quieter members, or you may end up getting all your information from only the talkative participants.

■ **Telephone interviews.** This is an inexpensive, fast way to get information from potential customers. Prepare a script before making the calls to ensure you cover all your objectives. Most people don’t like to spend a lot of time on the phone, so keep your questions simple, clearly worded and brief. If you don’t have time to make the calls yourself, hire college students to do it for you.

■ **Direct-mail interviews.** If you want to survey a wider audience, direct mail can be just the ticket. Your survey can be as simple as a postcard or as elaborate as a cover letter, questionnaire and reply envelope (for an example of the latter type, see pages 111 and 113). Keep questionnaires to a maximum of one page, and ask no more than 20 questions. Ideally, direct-mail surveys should be simple, structured with “yes/no” or “agree/disagree” check-off boxes so respondents can answer quickly and easily. If possible, only ask for one or two write-in answers at most.

■ **E-mail interviews.** Many of the principles used in direct-mail interviews also apply to these surveys. Give clear
instructions on how to respond, and be appreciative in advance for the data you get back.

**Making a List**

How do you get the names of potential customers to call or mail questionnaires to? You can get lists from many places, including your suppliers, trade associations or a list-rental company. List-rental companies can give you access to a mailing list of a group of people who fit into your desired market. Refer to your local Yellow Pages for the names of list-rental companies. If none are listed, contact the Direct Marketing Association. (For more information on mailing lists, see Chapter 30.)

A less sophisticated approach to finding potential customer names is picking them at random from the phone book. If you’ve developed a latex glove for doctors, for example, you can get doctors’ names out of the Yellow Pages. Whatever method you use to gather your information, the key to market research is using what you learn. The most sophisticated survey in the world does you no good if you ignore the information and the feedback customers provide.
Sample Focus Group Questionnaire

1. How many times a year do you purchase fine chocolates for yourself?

   ____________________________

2. How many times a year do you purchase fine chocolates as gifts:

   • for your spouse or significant other? ______________________
   • for your children? ____________________________
   • for other relatives? What are their relationships? ______________
   • for clients or co-workers? ____________________________

3. Do you prefer dark chocolate or milk chocolate? ______________

   ____________________________

4. Do you prefer to choose your own selection (nuts, chews, creams, etc.), or would you rather purchase a pre-boxed assortment?

   ____________________________

5. How much do you usually spend for a one-pound box of chocolates?

   ____________________________

6. Would you pay more for a box specially wrapped for a gift occasion?

   ____________________________

7. For which special occasions do you purchase chocolates?

   ____________________________

8. How much would you expect to pay for this half-pound box of gold foil-wrapped chocolate stars? (Here you show the product to your group.)

   ____________________________
Sample Focus Group Questionnaire, continued

9. How much would you expect to pay for an eight-ounce solid chocolate Elvis Presley? (Here you show the product to your group.)

10. Would you buy an eight-ounce solid chocolate Elvis Presley? ______

11. How many times in the past year have you purchased something by mail order? ____________________________________________

12. Were you pleased with your purchase? ____________________________________________

13. If so, why? _________________________________________________________________

14. If not, why not? ___________________________________________________________

15. Would you feel comfortable about the freshness of chocolates you received through the mail? ____________________________________________________________

16. What would you expect to pay for shipping and handling? ______

17. Please comment on the name Chocoholic Central (love, like, dislike or hate, and why). ________________________________________________________________

18. Please comment on the name For Chocolate Lovers Only (love, like, dislike or hate, and why). ________________________________________________________________
Sample Direct-Mail Cover Letter

Your Own Personal Interior Decorator
OnCall Designer for Pennies!

How would you like to have your very own interior decorator available any time you need her—to redecorate a single room or your entire home, or just to answer all those “little” questions, like what color to repaint the kitchen or how to make the kids’ rooms more organized?

Sound wonderful but too expensive? Not so! With OnCall Designer, you can get professional interior design services for as little as $50 per room. And we’d like to offer you a charter membership!

But first, we need your help. In order to tailor our service to your needs and desires, we’re asking you to fill out the attached questionnaire and send it back. It’s a self-mailer, so it’s easy! And to show our appreciation for your help, we’ll enroll you as a charter member of OnCall Designer. This entitles you to:

- Monthly newsletters packed with design tips and ideas
- Fantastic discounts on designer books, kits and products
- 10% off your first decorator request

Sound exciting? It is! When you receive your first mailing, you’ll be thrilled with the quality of our products and services—everything you need to give your home that exclusive designer look. Your friends will want to know how you did it!

Ready to get started? It’s as easy as 1, 2, 3:

1. Fill out the attached questionnaire.
2. Fold it and send it back in its own mailer to OnCall Designer.
3. Keep the certificate below! When you receive your first mailing, you can use the coupon for your 10% discount on the product or service of your choice.
Sample Direct-Mail Cover Letter, continued

OnCall Designer

This certificate entitles _____________________________________,

a charter member of OnCall Designer, to a full 10% off any

product or service offered in Mailing No. 1.

Enjoy!

123 Décor Drive, Dept. 1A, Art Deco, FL 30000 · (305) 555-9800 · oncalldesigner.com
Sample Direct-Mail Questionnaire

OnCall Designer

Charter Member’s Questionnaire

1. What is your favorite decorating style (country, contemporary, traditional, etc.)? ________________________________

2. How often do you redecorate?
   - Every year
   - Every two years
   - Every time you can stretch your budget

3. When was the last time you redecorated? __________________

4. Which room or rooms did you do and why? __________________

5. About how much did you spend on this project? ______________

6. What are your biggest decorating problems or concerns? (Go ahead—tell us everything!) ____________________________

7. How many people make up your household? ________________

8. If you have kids at home, what are their ages? ______________

9. What is the approximate square footage of your home? _________

10. Is it a house, a condo or an apartment? ______________________
Sample Direct-Mail Questionnaire, continued

11. How many bedrooms? ________________________________

12. How many baths? _________________________________

13. Do you have a separate family room, office or den? (Please circle all that apply.)

14. Do you have a patio or a deck? ____________________________

15. Would you be interested in tips, tricks and products for outdoor entertaining? ________________________________

16. What is your annual household income? ____________________

17. Do you have a computer with internet access? _________________

18. Do you own and use a digital camera? _______________________

We appreciate your answers and comments.
They’ll help us make OnCall Designer perfect for you.
Watch for our first mailing—coming soon!
What’s in a name? A lot, when it comes to small-business success. The right name can make your company the talk of the town; the wrong one can doom it to obscurity and failure. If you’re smart, you’ll put just as much effort into naming your business as you did into coming up with your idea, writing your business plan and selecting a market and location. Ideally, your name should convey the expertise, value and uniqueness of the product or service you have developed.

Finding a good business name is more difficult than ever. Many of the best names have already been trademarked. But with advertising costs and competition on the rise, a good name is crucial to creating a memorable business image. In short, the name you choose can make or break your business.

There’s a lot of controversy over what makes a good business name. Some experts believe that the best
names are abstract, a blank slate upon which to create an image. Others think that names should be informative so customers know immediately what your business is. Some believe that coined names (names that come from made-up words) are more memorable than names that use real words. Others think most coined names are forgettable. In reality, any name can be effective if it’s backed by the appropriate marketing strategy.

**Expert Assistance**

Given all the considerations that go into a good company name, shouldn’t you consult an expert, especially if you’re in a field in which your company name will be visible and may influence the success of your business? And isn’t it easier to enlist the help of a naming professional?

Yes. Just as an accountant will do a better job with your taxes and an ad agency will do a better job with your ad campaign, a naming firm will be more adept at naming your firm than you will. Naming firms have elaborate systems for creating new names, and they know their way around the trademark laws. They have the expertise to advise you against bad name choices and explain why others are good. A name consultant will take this perplexing task off your hands—and do a fabulous job for you in the process.

The downside is cost. A professional naming firm may charge from $5,000 to $80,000 to develop a name, which usually includes other identity work and graphic design as part of the package, according to Laurel Sutton, a principal with Catchword Brand Name Development. A Google search turned up several companies that charge as little as $49 just for the naming work, but the benefit of using professionals is that spending the money now can save you money in the end. Professional namers may be able to find a better name—one that is so

—I have learned that success is to be measured not so much by the position that one has reached in life as by the obstacles overcome while trying to succeed.

—BOOKER T. WASHINGTON, POLITICAL ACTIVIST
recognizable and memorable, it will pay for itself in the long run. They have the expertise to help you avoid legal hassles with trademarks and registration—problems that can cost you plenty if you end up choosing a name that already belongs to someone else. And they are familiar with design elements, such as how a potential name might work on a sign or stationery.

If you can spare the money from your startup budget, professional help could be a solid investment. After all, the name you choose now will affect your marketing plans for the duration of your business. If you’re like most business owners, though, the responsibility for thinking up a name will be all your own. The good news: By following the same basic steps professional namers use, you can come up with a meaningful moniker that works without breaking the bank.

**What Does It Mean?**

Start by deciding what you want your name to communicate. To be most effective, your company name should reinforce the key elements of your business. Your work in developing a niche and a mission statement (see Chapter 6) will help you pinpoint the elements you want to emphasize in your name.

Consider retail as an example. In retailing, the market is so segmented that a name must convey very quickly what the customer is going after. For example, if it’s a warehouse store, it has to convey that impression. If it’s an upscale store selling high-quality foods, it has to convey that impression. The name combined with the logo is very important in doing that. So the first and most important step in choosing a name is deciding what your business is.

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**TIP**

Where to get ideas for your new business’s name? Get your creative juices flowing by paying attention to all the business names you run across in your daily life—whether the businesses are similar to yours or not.

Which names do you like, and why? What makes them effective? Which ones don’t you like, and why are they unappealing? Soon you will have a clearer idea of what makes a good (and bad) business name.
Should your name be meaningful? Most experts say yes. The more your name communicates to consumers, the less effort you must exert to explain it. According to naming experts, name developers should give priority to real words or combinations of words over fabricated words. People prefer words they can relate to and understand. That’s why professional namers universally condemn strings of numbers or initials as a bad choice.

On the other hand, it is possible for a name to be too meaningful. Naming experts caution that business owners need to beware of names that are too narrowly defined. Common pitfalls are geographic names or generic names. Take the name “San Pablo Disk Drives” as a hypothetical example. What if the company wants to expand beyond the city of San Pablo, California? What meaning will that name have for consumers in Chicago or Pittsburgh? And what if the company diversifies beyond disk drives into software or computer instruction manuals?

Specific names make sense if you intend to stay in a narrow niche forever. If you have any ambitions of growing or expanding, however, you should find a name that is broad enough to accommodate your growth. How can a name be both meaningful and broad? There’s a distinction between descriptive names (like San Pablo Disk Drives) and suggestive names. Descriptive names tell something concrete about a business—what it does, where it’s located and so on. Suggestive names are more abstract. They focus on what the business is about. Would you like to convey quality? Convenience? Novelty? These are the kinds of qualities that a suggestive name can express.

Consider the name “Italiatour,” a name that was developed by one naming company to help promote package tours to Italy. Though it's
not a real word, the name “Italiatour” is meaningful. Right away, you recognize what’s being offered. But even better, the name “Italiatour” evokes the excitement of foreign travel. It would have been a very different name if it had been called “Italy-tour.” The naming company took a foreign word, “Italia,” but one that was very familiar and emotional and exciting to English speakers, and combined it with the English word “tour.” The result is easy to say, it’s unique, and it’s unintimidating, but it still has an Italian flavor.

Before you start thinking up names for your new business, try to define the qualities that you want your business to be identified with. If you’re starting a hearth-baked bread shop, you might want a name that conveys freshness, warmth and a homespun atmosphere. Immediately, you can see that names like “Kathy’s Bread Shop” or “Arlington Breads” would communicate none of these qualities. But consider the name “Open Hearth Breads.” The bread sounds homemade, hot and just out of the oven. Moreover, if you diversified your product line, you could alter the name to “Open Hearth Bakery.” This change would enable you to hold on to your suggestive name without totally mystifying your established clientele.

Making It Up

At a time when almost every existing word in the language has been trademarked, the option of coining a name is becoming more popular. Perhaps the best coined names come from professional naming firms. Some examples are Acura and Compaq, names coined by NameLab.

Since its beginning, NameLab has been a champion of the coined name. According to company president Michael Barr, coined names can be more meaningful than existing words. For example, take the name “Acura”: Although it has no dictionary definition, it suggests precision engineering, just as the company intended. How can that be? NameLab’s team created the name “Acura” from “Acu,”

“It’s choice not chance that determines your destiny.”

—Jean Nidetch, founder of Weight Watchers
a word segment that means “precise” in many languages. By working with meaningful word segments (what linguists call morphemes) like “Acu,” Barr says that the company produces new words that are both meaningful and unique.

“The naming process needs a creative approach,” says Barr. He says that conventional words may not express the innovation or new ideas behind a new company or product. However, a new or “coined” word may be a better way to express that newness. Barr admits, however, that new words aren’t the right solution for every situation. New words are complex and may create a perception that the product, service or company is complex, which may not be true. Plus, naming beginners might find this sort of coining beyond their capabilities.

### DOS AND DON'TS

When choosing a business name, keep the following tips in mind:

- Choose a name that appeals not only to you, but also to the kind of customers you are trying to attract.
- To get customers to respond to your business on an emotional level, choose a comforting or familiar name that conjures up pleasant memories.
- Don’t pick a name that is long or confusing.
- Stay away from cute puns that only you understand.
- Don’t use the word “Inc.” after your name unless your company is actually incorporated.
- Don’t use the word “Enterprises” after your name; this term is often used by amateurs.
An easier solution is to use new forms or spellings of existing words. For instance, NameLab created the name Compaq when a new computer company came to them, touting its new portable computer. The team thought about the word “compact,” but that word alone wouldn’t stand out in major media like The New York Times or The Wall Street Journal. So, Barr says, the team changed the spelling to Compaq to make it more noticeable.

**Namestorming**

Begin brainstorming, looking in dictionaries, books and magazines to generate ideas. Get friends and relatives to help if you like; the more minds, the merrier. Think of as many workable names as you can during this creative phase. Professional naming firms start out with a raw base of 800 to 1,000 names and work from there. You probably don’t have time to think of that many, but try to come up with at least 10 names that you feel good about. By the time you examine them from all angles, you’ll eliminate at least half.

The trials you put your names through will vary depending on your concerns. Some considerations are fairly universal. For instance, your name should be easy to pronounce, especially if you plan to rely heavily on print ads or signs. If people can’t pronounce your name, they will avoid saying it. It’s that simple. And nothing could be more counterproductive to a young company than to strangle its potential for word-of-mouth advertising.

Other considerations depend on more individual factors. For instance, if you’re thinking about marketing your business name clearly conveys what you do. A flower shop named Stargazers, for example, probably won’t be the first place customers think of when buying flowers, since they’ll probably expect you to sell telescopes or New Age products. Your name can even affect your ability to recruit employees. Someone interested in working at a flower shop might not call Stargazers to ask about jobs since they might not expect it to be a florist.

**WARNING**

Make sure your business name clearly conveys what you do. A flower shop named Stargazers, for example, probably won’t be the first place customers think of when buying flowers, since they’ll probably expect you to sell telescopes or New Age products. Your name can even affect your ability to recruit employees. Someone interested in working at a flower shop might not call Stargazers to ask about jobs since they might not expect it to be a florist.
globally or if you are located in a multilingual area, you should make sure that your new name has no negative connotations in other languages. On another note, if your primary means of advertising will be in the telephone directory, you might favor names that are closer to the beginning of the alphabet. Finally, make sure that your name is in no way embarrassing. Put on the mind of a child and tinker with the letters a little. If none of your doodlings makes you snicker, it’s probably OK.

Naming firm Interbrand advises name seekers to take a close look at their competition: The major function of a name is to distinguish your business from others. You have to weigh who’s out there already, what type of branding approaches they have taken, and how you can use a name to separate yourself.

**Testing, Testing**

After you’ve narrowed the field to, say, four or five names that are memorable, expressive and can be read by the average grade-schooler, you are ready to do a trademark search.

Must every name be trademarked? No. Many small businesses don’t register their business names. As long as your state government gives you the go-ahead, you may operate under an unregistered business name for as long as you like—assuming, of course, that you aren’t infringing on anyone else’s trade name.

But what if you are? Imagine either of these two scenarios: You are a brand-new manufacturing business just about to ship your first orders. An obscure little company in Ogunquit, Maine, considers the name of your business an infringement on their trademark and engages you in a legal battle that bankrupts your company. Or envision your business in five years. It’s a thriving, growing concern, and you are contemplating expansion. But just as you are about to launch your franchise program, you learn that a small competitor in Modesto, California, has the same name, rendering your name unusable.

To illustrate the risk you run of treading on an existing trademark with your new name, consider this: When NameLab took on the task
of renaming a chain of auto parts stores, they uncovered 87,000 names already in existence for stores of this kind. That’s why even the smallest businesses should at least consider having their business names screened. You never know where your corner store is going to lead. If running a corner store is all a person is going to do, then there’s no need to do a trademark search. But that local business may become a big business someday if that person has any ambition.

Enlisting the help of a trademark attorney or at least a trademark search firm before you decide on a name for your business is highly advisable. After all, the extra money you spend now could save you countless hassles and expenses further down the road. Try to contain your excitement about any one name until it has cleared the trademark search: It can be very demoralizing to lose a name you’ve been fantasizing about.

**Final Analysis**

If you’re lucky, you’ll end up with three to five names that pass all your tests. How do you make your final decision?

Recall all your initial criteria. Which name best fits your objectives? Which name most accurately describes the company you have in mind? Which name do you like the best?

Every company arrives at a final decision in its own way. Some entrepreneurs go with their gut or use personal reasons for choosing one name over another. Others are more scientific. Some companies do consumer research or testing with focus groups to see how the names are perceived. Others might decide that their name is going to be most important seen on the back of a truck, so they have a graphic designer turn the various names into logos to see which works best as a design element.
Use any or all of these criteria. You can do it informally: Ask other people's opinions. Doodle an idea of what each name will look like on a sign or on business stationery. Read each name aloud, paying attention to the way it sounds if you foresee radio advertising or telemarketing in your future.

**Say It Loud**

Professional naming firms devote anywhere from six weeks to six months to the naming process. You probably won’t have that much time, but plan to spend at least a few weeks on selecting a name.

Once your decision is made, start building your enthusiasm for the new name immediately. Your name is your first step toward building a strong company identity, one that should last as long as you’re in business.
Of all the decisions you make when starting a business, probably the most important one relating to taxes is the type of legal structure you select for your company.

Not only will this decision have an impact on how much you pay in taxes, but it will affect the amount of paperwork your business is required to do, the personal liability you face and your ability to raise money.

The most common forms of business are sole proprietorship, partnership, corporation and S corporation. A more recent development to these forms of business is the limited liability company (LLC) and the limited liability partnership (LLP). Because each business form comes with different tax consequences, you will want to make your selection wisely and choose the structure that most closely matches your business’s needs.
If you decide to start your business as a sole proprietorship but later decide to take on partners, you can reorganize as a partnership or other entity. If you do this, be sure you notify the IRS as well as your state tax agency.

**Sole Proprietorship**

The simplest structure is the sole proprietorship, which usually involves just one individual who owns and operates the enterprise. If you intend to work alone, this structure may be the way to go.

The tax aspects of a sole proprietorship are appealing because the expenses and your income from the business are included on your personal income tax return, Form 1040. Your profits and losses are recorded on a form called Schedule C, which is filed with your 1040. The “bottom-line amount” from Schedule C is then transferred to your personal tax return. This is especially attractive because business losses you suffer may offset the income you have earned from your other sources.

As a sole proprietor, you must also file a Schedule SE with Form 1040. You use Schedule SE to calculate how much self-employment tax you owe. In addition to paying annual self-employment taxes, you must make estimated tax payments if you expect to owe at least $1,000 in federal taxes for the year after deducting your withholding and credits, and your withholding will be less than the smaller of: 1) 90 percent of the tax to be shown on your current year tax return or 2) 100 percent of your previous year’s tax liability. The federal government permits you to pay estimated taxes in four equal amounts throughout the year on the 15th of April, June, September and January. With a sole proprietorship, your business earnings are taxed only once, unlike other business structures. Another big plus is that you will have complete control over your business—you make all the decisions.

**TIP**

If you operate as a sole proprietor, be sure you keep your business income and records separate from your personal finances. It helps to establish a business checking account and get a credit card to use only for business expenses.
There are a few disadvantages to consider, however. Selecting the sole proprietorship business structure means you are personally responsible for your company’s liabilities. As a result, you are placing your assets at risk, and they could be seized to satisfy a business debt or a legal claim filed against you.

Raising money for a sole proprietorship can also be difficult. Banks and other financing sources may be reluctant to make business loans to sole proprietorships. In most cases, you will have to depend on your financing sources, such as savings, home equity or family loans.

**Partnership**

If your business will be owned and operated by several individuals, you’ll want to take a look at structuring your business as a partnership. Partnerships come in two varieties: general partnerships and limited partnerships. In a general partnership, the partners manage the company and assume responsibility for the partnership’s debts and other obligations. A limited partnership has both general and limited partners. The general partners own and operate the business and assume liability for the partnership, while the limited partners serve as investors only; they have no control over the company and are not subject to the same liabilities as the general partners.

Unless you expect to have many passive investors, limited partnerships are generally not the best choice for a new business because of all the required filings and administrative complexities. If you have two or more partners who want to be actively involved, a general partnership would be much easier to form.

One of the major advantages of a partnership is the tax treatment it enjoys. A partnership does not pay tax on its income but “passes through” any profits or losses to the individual partners. At tax time,
If you decide to organize your business as a partnership, be sure you draft a partnership agreement that details how business decisions are made, how disputes are resolved, and how to handle a buyout. You’ll be glad you have this agreement if for some reason you run into difficulties with one of the partners or if someone wants out of the arrangement.

The agreement should address the purpose of the business and the authority and responsibility of each partner. It’s a good idea to consult an attorney experienced with small businesses for help in drafting the agreement. Here are some other issues you’ll want the agreement to address:

- **How will the ownership interest be shared?** It’s not necessary, for example, for two owners to equally share ownership and authority. However, if you decide to do it, make sure the proportion is stated clearly in the agreement.

- **How will decisions be made?** It’s a good idea to establish voting rights in case a major disagreement arises. When just two partners own the business 50-50, there’s the possibility of a deadlock. To avoid a deadlock, some businesses provide in advance for a third partner, a trusted associate who may own only 1 percent of the business but whose vote can break a tie.

- **When one partner withdraws, how will the purchase price be determined?** One possibility is to agree on a neutral third party, such as your banker or accountant, to find an appraiser to determine the price of the partnership interest.

- **If a partner withdraws from the partnership, when will the money be paid?** Depending on the partnership agreement, you can agree that the money be paid over three, five or 10 years, with interest. You don’t want to be hit with a cash-flow crisis if the entire price has to be paid on the spot in one lump sum.
the partnership must file a tax return (Form 1065) that reports its income and loss to the IRS. In addition, each partner reports his or her share of income and loss on Schedule K-1 of Form 1065.

Personal liability is a major concern if you use a general partnership to structure your business. Like sole proprietors, general partners are personally liable for the partnership’s obligations and debts. Each general partner can act on behalf of the partnership, take out loans and make decisions that will affect and be binding on all the partners (if the partnership agreement permits). Keep in mind that partnerships are also more expensive to establish than sole proprietorships because they require more legal and accounting services.

**Corporation**

The corporate structure is more complex and expensive than most other business structures. A corporation is an independent legal entity, separate from its owners, and as such, it requires complying with more regulations and tax requirements.

The biggest benefit for a business owner who decides to incorporate is the liability protection he or she receives. A corporation’s debt is not considered that of its owners, so if you organize your business as a corporation, you are not putting your personal assets at risk. A corporation also can retain some of its profits without the owner paying tax on them.

Another plus is the ability of a corporation to raise money. A corporation can sell stock, either common or preferred, to raise funds. Corporations also continue indefinitely, even if one of the shareholders dies, sells the shares or becomes disabled. The corporate structure, however, comes with a number of downsides. A major one is
higher costs. Corporations are formed under the laws of each state with its own set of regulations. You will probably need the assistance of an attorney to guide you. In addition, because a corporation must follow more complex rules and regulations than a partnership or sole proprietorship, it requires more accounting and tax preparation services.

Another drawback to forming a corporation: Owners of the corporation pay a double tax on the business’s earnings. Not only are corporations subject to corporate income tax at both the federal and state levels, but any earnings distributed to shareholders in the form of dividends are taxed at individual tax rates on their personal income tax returns.

One strategy to help soften the blow of double taxation is to pay some money out as salary to you and any other corporate shareholders who work for the company. A corporation is not required to pay tax on earnings paid as reasonable compensation, and it can deduct the payments as a business expense. However, the IRS has limits on what it believes to be reasonable compensation.

**S Corporation**

The S corporation is more attractive to small-business owners than a regular (or C) corporation. That’s because an S corporation has some appealing tax benefits and still provides business owners with the liability protection of a corporation. With an S corporation, income and losses are passed through to shareholders and included on their individual tax returns. As a result, there’s just one level of federal tax to pay.

In addition, owners of S corporations who don’t have inventory can use the cash method of accounting, which is simpler than the accrual method. Under this method, income is taxable when received and expenses are deductible when paid (see Chapter 37).
S corporations can also have up to 100 shareholders. This makes it possible to have more investors and thus attract more capital, tax experts maintain.

S corporations do come with some downsides. For example, S corporations are subject to many of the same rules corporations must follow, and that means higher legal and tax service costs. They also must file articles of incorporation, hold directors and shareholders meetings, keep corporate minutes, and allow shareholders to vote on major corporate decisions. The legal and accounting costs of setting up an S corporation are also similar to those for a regular corporation.

To make sure your corporation stays on the right side of the law, heed the following guidelines:

- Call the secretary of state each year to check your corporate status.
- Put the annual meetings (shareholders and directors) on tickler cards.
- Check all contracts to ensure the proper name is used in each. The signature line should read “John Doe, President, XYZ Corp.,” never just “John Doe.”
- Never use your name followed by “dba” (doing business as) on a contract. Renegotiate any old ones that do.
- Before undertaking any activity out of the normal course of business—like purchasing major assets—write a corporate resolution permitting it. Keep all completed forms in the corporate book.
- Never use corporate checks for personal debts and vice versa.
- Get professional advice about continued retained earnings not needed for immediate operating expenses.
Another major difference between a regular corporation and an S corporation is that S corporations can only issue one class of stock. Experts say this can hamper the company’s ability to raise capital.

In addition, unlike in a regular corporation, S corporation stock can only be owned by individuals, estates and certain types of trusts. In 1998, tax-exempt organizations such as qualified pension plans were added to the list. This change provides S corporations with even greater access to capital because a number of pension plans are willing to invest in closely held small-business stock.

**Putting Inc. to Paper**

To start the process of incorporating, contact the secretary of state or the state office that is responsible for registering corporations in your state. Ask for instructions, forms and fee schedules on incorporating.

It is possible to file for incorporation without the help of an attorney by using books and software to guide you. Your expense will be the cost of these resources, the filing fees and other costs associated with incorporating in your state.

If you do it yourself, you will save the expense of using a lawyer, which can cost from $500 to $5,000 if you choose a firm that specializes in startup businesses. The disadvantage is that the process may take you some time to accomplish. There is also a chance you could miss some small but important detail in your state’s law.

One of the first steps in the incorporation process is to prepare a certificate or articles of incorporation. Some states provide a printed form for this, which either you or your attorney can complete. The information requested includes the proposed name of the corporation,
the purpose of the corporation, the names and addresses of those incorporating, and the location of the principal office of the corporation. The corporation will also need a set of bylaws that describe in greater detail than the articles how the corporation will run, including the responsibilities of the company’s shareholders, directors and officers; when stockholder meetings will be held; and other details important to running the company. Once your articles of incorporation are accepted, the secretary of state’s office will send you a certificate of incorporation.

**Rules of the Road**

Once you are incorporated, be sure to follow the rules of incorporation. If you fail to do so, a court can pierce the corporate veil and hold you and the other business owners personally liable for the business’s debts.

It is important to follow all the rules required by state law. You should keep accurate financial records for the corporation, showing a separation between the corporation’s income and expenses and those of the owners.

The corporation should also issue stock, file annual reports and hold yearly meetings to elect company officers and directors, even if they’re the same people as the shareholders. Be sure to keep minutes of shareholders’ and directors’ meetings. On all references to your business, make certain to identify it as a corporation, using Inc. or Corp., whichever your state requires. You also want to make sure that whomever you will be dealing with, such as your banker or clients, knows that you are an officer of a corporation. (For more corporate guidelines, see “Corporate Checklist” on page 131.)
Limited Liability Company

Limited liability companies, often referred to as “Lacs,” have been around since 1977, but their popularity among entrepreneurs is a relatively recent phenomenon. An LLC is a hybrid entity, bringing together some of the best features of partnerships and corporations.

"Nobody can be a success if they don’t love their work."

—DAVID SARNOFF,
CHAIRMAN OF RCA
LLCs were created to provide business owners with the liability protection that corporations enjoy without the double taxation. Earnings and losses pass through to the owners and are included on their personal tax returns.

Sound similar to an S corporation? It is, except that an LLC offers business owners even more attractions than an S corporation. For example, there is no limitation on the number of shareholders an LLC can have, unlike an S corporation, which has a limit of 100 shareholders. In addition, any member or owner of the LLC is allowed a full participatory role in the business's operation; in a limited partnership, on the other hand, partners are not permitted any say in the operation.

To set up an LLC, you must file articles of organization with the secretary of state in the state where you intend to do business. Some states also require you to file an operating agreement, which is similar to a partnership agreement. Like partnerships, LLCs do not have perpetual life. Some state statutes stipulate that the company must dissolve after 30 years. Technically, the company dissolves when a member dies, quits or retires.

If you plan to operate in several states, you must determine how a state will treat an LLC formed in another state. If you decide on an LLC structure, be sure to use the services of an experienced accountant who is familiar with the various rules and regulations of LLCs.

Another recent development is the limited liability partnership (LLP). With an LLP, the general partners have limited liability. For example, the partners are liable for their own malpractice and not that of their partners. This legal form works well for those involved in a professional practice, such as physicians.
The Nonprofit Option

What about organizing your venture as a nonprofit corporation? Unlike a for-profit business, a nonprofit may be eligible for certain benefits, such as sales, property and income tax exemptions at the state level. The IRS points out that while most federal tax-exempt organizations are nonprofit organizations, organizing as a nonprofit at the state

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**LAYING THE FOUNDATION**

When making a decision about which business structure to use, answering the following questions should help you narrow down which entity is right for you:

- How many owners will your company have, and what will their roles be?
- Are you concerned about the tax consequences of your business structure?
- Do you want to consider having employees become owners in the company?
- Can you deal with the added costs that come with selecting a complicated business structure?
- How much paperwork are you prepared to deal with?
- Do you want to make all the decisions in the company?
- Are you planning to go public?
- Do you want to protect your personal resources from debts or other claims against your company?
- Are family succession issues a concern?
level does not automatically grant you an exemption from federal income tax.

Another major difference between a profit and nonprofit business deals with the treatment of the profits. With a for-profit business, the owners and shareholders generally receive the profits. With a nonprofit, any money that is left after the organization has paid its bills is put back into the organization. Some types of nonprofits can receive contributions that are tax deductible to the individual who contributes to the organization. Keep in mind that nonprofits are organized to provide some benefit to the public.

Nonprofits are incorporated under the laws of the state in which they are established. To receive federal tax-exempt status, the organization must apply with the IRS. First, you must have an Employer Identification Number (EIN) and then apply for recognition of exemption by filing Form 1023 (Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code) or Form 1024 (Application for Recognition of Exemption under Section 501(a)) with the necessary filing fee. Both forms are available online at irs.gov. (For information on how to apply for an EIN, see Chapter 41.)

The IRS identifies the different types of nonprofit organizations by the tax code by which they qualify for exempt status. One of the most common forms is 501(c)(3), which is set up to do charitable, educational, scientific, religious and literary work. This includes a wide range of organizations, from continuing education centers to outpatient clinics and hospitals.

The IRS also mandates that there are certain activities tax-exempt organizations can’t engage in if they want to keep their exempt status. For example, a section 501(c)(3) organization cannot intervene in political campaigns.
Remember, nonprofits still have to pay employment taxes, but in some states they may be exempt from paying sales tax. Check with your state to make sure you understand how nonprofit status is treated in your area. In addition, nonprofits may be hit with unrelated business income tax. This is regular income from a trade or business that is not substantially related to the charitable purpose. Any exempt organization under Section 501(a) or Section 529(a) must file Form 990-T *(Exempt Organization Business Income Tax Return)* if the organization has gross income of $1,000 or more from an unrelated business and pay tax on the income.

If your nonprofit has revenues of more than $25,000 a year, be sure to file an annual report (Form 990) with the IRS. Form 990-EZ is a shortened version of 990 and is designed for use by small exempt organizations with incomes of less than $1 million.

Form 990 asks you to provide information on the organization’s income, expenses and staff salaries. You also may have to comply with a similar state requirement. The IRS report must be made available for public review. If you use the calendar year as your accounting period (see Chapter 41), file Form 990 by May 15.

For more information on IRS tax-exempt status, download IRS Publication 557 *(Tax-Exempt Status for Your Organization)* at irs.gov.

Even after you settle on a business structure, remember that the circumstances that make one type of business organization favorable are always subject to changes in the laws. It makes sense to reassess your form of business from time to time to make sure you are using the one that provides the most benefits.
## Choosing a Legal Form for Your Business

This table summarizes the characteristics of six different forms of business: sole proprietorships, general partnerships, limited partnerships, limited liability partnerships (LLPs), corporations in general, and S corporations. We list four characteristics for each legal form:

- **Control.** Who holds authority in a business operating under this form?
- **Liability.** Who is legally liable for any losses the business experiences?
- **Tax.** How will business income and expenses be reported?
- **Continuity.** If a business owner dies or wants to leave the business, does the business continue?

### Sole Proprietorship

<table>
<thead>
<tr>
<th>Control</th>
<th>Liability</th>
<th>Tax</th>
<th>Continuity</th>
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<tbody>
<tr>
<td>Owner maintains complete control over the business.</td>
<td>Owner is solely liable. His or her personal assets are open to attack in any legal case.</td>
<td>Owner reports all income and expenses on personal tax return.</td>
<td>Business terminates upon the owner’s death or withdrawal. Owner can sell the business but will no longer remain the proprietor.</td>
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</table>

### General Partnership

<table>
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<tr>
<th>Control</th>
<th>Liability</th>
<th>Tax</th>
<th>Continuity</th>
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<tbody>
<tr>
<td>Each partner has the authority to enter contracts and make other business decisions, unless the partnership agreement stipulates otherwise.</td>
<td>Each partner is liable for all business debts.</td>
<td>Each partner reports partnership income on their individual tax returns. The business does not pay any taxes as its own entity.</td>
<td>Unless the partnership agreement makes other provisions, a partnership dissolves upon the death or withdrawal of a partner.</td>
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### Choosing a Legal Form For Your Business, continued

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<th><strong>Limited Partnership</strong></th>
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<tbody>
<tr>
<td><strong>Control</strong></td>
<td><strong>Liability</strong></td>
<td><strong>Tax</strong></td>
<td><strong>Continuity</strong></td>
</tr>
<tr>
<td>General partners control the business.</td>
<td>General partners are personally responsible for partnership liabilities. Limited partners are liable for the amount of their investment.</td>
<td>Partnership files annual taxes. Limited and general partners report their share of partnership income or loss on their individual returns.</td>
<td>Death of a limited partner does not dissolve business, but death of general partner might, unless the agreement makes other provisions.</td>
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<th><strong>Limited Liability Partnership</strong></th>
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<tr>
<td><strong>Control</strong></td>
<td><strong>Liability</strong></td>
<td><strong>Tax</strong></td>
<td><strong>Continuity</strong></td>
</tr>
<tr>
<td>Owner or partners have authority.</td>
<td>Partners are not liable for business debts.</td>
<td>The partners report income and income tax on their individual tax returns.</td>
<td>Different states have different laws regarding the continuity of LLCs.</td>
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<th><strong>Corporation</strong></th>
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<tr>
<td><strong>Control</strong></td>
<td><strong>Liability</strong></td>
<td><strong>Tax</strong></td>
<td><strong>Continuity</strong></td>
</tr>
<tr>
<td>Shareholders appoint the board of directors, which appoints officers, who hold the highest authority.</td>
<td>Shareholders generally are responsible for the amount of their investment in corporate stock.</td>
<td>Corporation pays its own taxes. Shareholders pay tax on their dividends.</td>
<td>The corporation is its own legal entity and can survive the deaths of owners, partners and shareholders.</td>
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Choosing a Legal Form For Your Business, continued

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<th>Control</th>
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<tr>
<td><strong>S Corporation</strong></td>
<td>See entry for corporations.</td>
<td>See entry for corporations.</td>
<td>Shareholders report shares of corporate profit or loss on their individual tax returns.</td>
<td>See entry for corporations.</td>
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Tell friends you’re starting a business, and you will get as many different pieces of advice as you have friends. One piece of wisdom, however, transcends all others: Write a business plan.

According to a study conducted for AT&T, only 42 percent of small-business owners bother to develop a formal business plan; of those who do use a plan, 69 percent say it was a major contributor to their success.

Some people think you don’t need a business plan unless you’re trying to borrow money. Of course, it’s true that you do need a good plan if you intend to approach a lender—whether a banker, a venture capitalist or any number of other sources—for startup capital. But a business plan is more than a pitch for financing; it’s a guide to help you define and meet your business goals.

Just as you wouldn’t start off on a cross-country drive without a road map, you should not embark on
your new business without a business plan to guide you. A business plan won’t automatically make you a success, but it will help you avoid some common causes of business failure, such as undercapitalization or lack of an adequate market.

As you research and prepare your business plan, you’ll find weak spots in your business idea that you’ll be able to repair. You’ll also discover areas with potential you may not have thought about before—and ways to profit from them. Only by putting together a business plan can you decide whether your great idea is really worth your time and investment.

What is a business plan, and how do you put one together? Simply stated, a business plan conveys your business goals and the strategies you’ll use to meet them, potential problems that may confront your business and ways to solve them, the organizational structure of your business (including titles and responsibilities), and the amount of capital required to finance your venture and keep it going until it breaks even.

Sound impressive? It can be, if put together properly. A good business plan follows generally accepted guidelines for both form and content. There are three primary parts of a business plan.

1. The first is the business concept, where you discuss the industry, your business structure, your product or service, and how you plan to make your business a success.
2. The second is the marketplace section, in which you describe and analyze potential customers: who and where they are, what makes them buy and so on. Here, you also describe the competition and how you will position yourself to beat it.
3. Finally, the financial section contains your income and cashflow statements, balance sheet and other financial ratios, such as break-even analyses. This part may require help from your accountant and a good spreadsheet software program.
Breaking these three major sections down further, a business plan consists of seven major components:

1. Executive summary
2. Business description
3. Market strategies
4. Competitive analysis
5. Design and development plan
6. Operations and management plan
7. Financial factors

In addition to these sections, a business plan should also have a cover, title page and table of contents.

**Executive Summary**

Anyone looking at your business plan will first want to know what kind of business you are starting. So the business concept section should start with an executive summary, which outlines and describes the product or service you will sell.

The executive summary is the first thing the reader sees. Therefore, it must make an immediate impact by clearly stating the nature of the business and, if you are seeking capital, the type of financing you want. The executive summary describes the business, its legal form of operation (sole proprietorship, partnership, corporation or limited liability company), the amount and purpose of the loan requested, the repayment schedule, the borrower’s equity share, and the debt-to-equity ratio after the loan, security or collateral is offered. Also listed are the market value, estimated value or price quotes for any equipment you plan to purchase with the loan proceeds.

Your executive summary should be short and businesslike—generally between half a page and one page, depending on how complicated the use of funds is.
Business Description

This section expands on the executive summary, describing your business in much greater detail. It usually starts with a description of your industry. Is the business retail, wholesale, food service, manufacturing or service-oriented? How big is the industry? Why has it become so popular? What kind of trends are responsible for the industry’s growth? Prove, with statistics and anecdotal information, how much opportunity there is in the industry.

Explain the target market for your product or service, how the product will be distributed, and the business’ support systems—that is, its advertising, promotions and customer service strategies.

Next, describe your product or service. Discuss the product’s applications and end users. Emphasize any unique features or variations that set your product or service apart from others in your industry.

SAMPLE EXECUTIVE SUMMARY

The business will provide ecology-minded consumers with an environmentally safe disposable diaper that will feature all the elements that are popular among users of disposable diapers but will include the added benefit of biodegradability. The product, which is patent pending, will target current users of disposable diapers who are deeply concerned about the environment as well as those consumers using cloth diapers and diaper services. The product will be distributed to wholesalers who will, in turn, sell to major supermarkets, specialty stores, department stores and major toy stores.

The company was incorporated in 1989 in the state of California under the name of Softie Baby Care. The company’s CEO, president and vice president have more than 30 years of combined experience in the diaper industry.
With projected net sales of $871 million in its third year, the business will generate pretax net profits of 8 percent. Given this return, investment in the company is very attractive. Softie Baby Care Inc. will require a total amount of $26 million over three stages to start the business.

1. The first stage will require $8 million for product and market development.

2. The second stage of financing will demand $12 million for implementation.

3. The third stage will require $6 million for working capital until break-even is reached.

First-stage capital will be used to purchase needed equipment and materials to develop the product and market it initially. To obtain its capital requirements, the company is willing to relinquish 25 percent equity to first-stage investors.

The company has applied for a patent on the primary technology that the business is built around, which allows the plastic within a disposable diaper to break down upon extended exposure to sunlight. Lease agreements are also in place for a 20,000-square-foot facility in a light industrial area of Los Angeles, as well as for major equipment needed to begin production. Currently, the company has funding of $3 million from the three principals, with purchase orders for 500,000 units already in hand.

If you’re using your business plan for financing purposes, explain why the money you seek will make your business more profitable. Will you use the money to expand, to create a new product or to buy new equipment?
Market Strategies

Here’s where you define your market—it’s size, structure, growth prospects, trends and sales potential. Based on research, interviews and sales analysis, the marketplace section should focus on your customers and your competition. How much of the market will your product or service be able to capture?

The answer is tricky since so many variables influence it. Think of it as a combination of words and numbers. Write down the who, what, when, where and why of your customers. (You know all this because you researched it in Chapter 7.) The answer is critical to determining how you will develop pricing strategies and distribution channels.

Be sure to document how and from what sources you compiled your market information. Describe how your business fits into the overall market picture. Emphasize your unique selling proposition (USP)—in other words, what makes you different? Explain why your approach is ideal for your market.

Once you’ve clearly defined your market and established your sales goals, present the strategies you’ll use to meet those goals.

■ Price. Thoroughly explain your pricing strategy and how it will affect the success of your product or service. Describe your projected costs and then determine pricing based on the profit percentage you expect. Costs include materials, distribution, advertising and overhead. Many experts recommend adding 25 to 50 percent to each cost estimate, especially overhead, to ensure you don’t underestimate.

Looking for inspiration? Visit Uncle Sam: The SBA (sbaonline.sba.gov/starting_business/planning/basic.html) offers clear, concise business plan outlines and tutorials. When you’re done, if you feel like your business plan has the right stuff, consider submitting it to a business plan competition. Universities, such as Wharton and Harvard Business School, and corporations often sponsor such competitions, offering grants and other cash prizes that can really help offset your startup costs. To find a competition, Google “business plan competition” and see what turns up.
**Distribution.** This includes the entire process of moving the product from the factory to the end user. The type of distribution network you choose depends on your industry and the size of the market. How much will it cost to reach your target market? Does that market consist of upscale customers who will pay extra for a premium product or service, or budget-conscious consumers looking for a good deal? Study your competitors to see what channels they use. Will you use the same channels or a different method that may give you a strategic advantage?

**Sales.** Explain how your sales force (if you have one) will meet its goals, including elements such as pricing flexibility, sales presentations, lead generation and compensation policies.

**Competitive Analysis**

How does your business relate to the competition? The competitive analysis section answers this question. Using what you’ve learned from your market research, detail the strengths and weaknesses of your competitors, the strategies that give you a distinct advantage, any barriers you can develop to prevent new competition from entering the market and any weaknesses in your competitors’ service or product development cycle that you can take advantage of.

The competitive analysis is an important part of your business plan. Often, startup entrepreneurs mistakenly believe their product or service is the first of its kind and fail to recognize that competition exists. In reality, every business has competition, whether direct or indirect. Your plan must show that you recognize this and have a strategy for dealing with the competition.

**Design and Development Plan**

This section describes a product’s design and charts its development within the context of...
production, marketing and the company itself. If you have an idea but have not yet developed the product or service, if you plan to improve an existing product or service, or if you own an existing company and plan to introduce a new product or service, this section is extremely important. (If your product is already completely designed and developed, you don’t need to complete this section. If you are offering a service, you will need to concentrate only on the development half of the section.)

The design section should thoroughly describe the product’s design and the materials used; include any diagrams if applicable. The development plan generally covers these three areas: 1) product development, 2) market development and 3) organizational development. If you’re offering a service, cover only the last two.

Create a schedule that shows how the product, marketing strategies and organization will develop over time. The schedule should be tied to a development budget so expenses can be tracked throughout the design and development process.

**Operations and Management Plan**

Here, you describe how your business will function on a daily basis. This section explains logistics such as the responsibilities of each member of the management team, the tasks assigned to each division of the company (if applicable), and the capital and expense requirements for operating the business.

Describe the business’s managers and their qualifications, and specify what type of support staff will be needed for the business to run efficiently. Any potential benefits or pitfalls to the community should also be presented, such as new job creation, economic growth, and possible effects on the environment from manufacturing and how they will be handled to conform with local, state and federal regulations.
Financial Factors

The financial statements are the backbone of your business plan. They show how profitable your business will be in the short and long term, and should include the following:

- The *income statement* details the business’s cash-generating ability. It projects such items as revenue, expenses, capital (in the form of depreciation) and cost of goods. You should generate a monthly income statement for the business’s first year, quarterly statements for the second year and annual statements for each year thereafter (usually for three, five or 10 years, with five being the most common).

- The *cash-flow statement* details the amount of money coming into and going out of the business—monthly for the first year and quarterly for each year thereafter. The result is a profit or loss at the end of the period represented by each column. Both profits and losses carry over to the last column to show a cumulative amount. If your cash-flow statement shows you consistently operating at a loss, you will probably need additional cash to meet expenses. Most businesses have some seasonal variations in their budgets, so re-examine your cash-flow calculations if they look identical every month.

- The *balance sheet* paints a picture of the business’s financial strength in terms of assets, liabilities and equity over a set period. You should generate a balance sheet for each year profiled in the development of your business.

After these essential financial documents, include any relevant summary information that’s not included elsewhere in the plan but will significantly affect the business. This could include ratios such as return on investment, break-even point or return on assets. Your accountant can help you decide what information is best to include.

Many people consider the financial section of a business plan the most difficult to write. If you haven’t started your business yet, how do
you know what your income will be? You have a few options. The first is to enlist your accountant’s help. An accountant can take your raw data and organize it into categories that will satisfy all the requirements of a financial section, including monthly and yearly sales projections. Or, if you are familiar with accounting procedures, you can do it yourself with the help of a good spreadsheet program. (For more information on developing financial statements, see Chapter 38.)
A Living Document

You’ve put a lot of time and effort into your business plan. What happens when it’s finished? A good business plan should not gather dust in a drawer. Think of it as a living document, and refer to it often. A well-written plan will help you define activities and responsibilities within your business as well as identify and achieve your goals.

To ensure your business plan continues to serve you well, make it a habit to update yours annually. Set aside a block of time near the beginning of the calendar year, fiscal year or whenever is convenient for you. Meet with your accountant or financial advisor, if necessary, to go over and update financial figures. Is your business heading in the
right direction . . . or has it wandered off course?

Making it a practice to review your business plan annually is a great way to start the year fresh and reinvigorated. It lets you catch any problems before they become too large to solve. It also ensures that if the possibility of getting financing, participating in a joint venture or other such occasion arises, you’ll have an updated plan ready to go so you don’t miss out on a good opportunity.

Whether you’re writing it for the first time or updating it for the fifteenth, creating a good business plan doesn’t mean penning a 200-page novel or adding lots of fancy clip art and footnotes. It means proving to yourself and others that you understand your business, and that you know what’s required to make it grow and prosper.

Still need another reason to write a business plan? Consider this: If you decide to sell your business in the future, or if you become disabled or die and someone else takes over, a written business plan will help make the transition a smooth one.
As you start off on your business journey, there are two professionals you will soon come to rely on to guide you along the path: your lawyer and your accountant. It’s hard to navigate the maze of tax and legal issues facing entrepreneurs these days unless these professionals are an integral part of your team.

Hiring a Lawyer

When do you need a lawyer? Although the answer depends on your business and your particular circumstances, it’s generally worthwhile to consult one before making any decision that could have legal ramifications. These include setting up a partnership or corporation, checking for compliance with regulations, negotiating loans, obtaining trademarks or patents, preparing buy-sell agreements, assisting with tax planning, drawing up pension plans, reviewing business forms, negotiating
and drawing up documents to buy or sell real estate, reviewing employee contracts, exporting or selling products in other states, and collecting bad debts. If something goes wrong, you may need an attorney to stand up for your trademark rights, go to court on an employee dispute or defend you in a product liability lawsuit. Some entrepreneurs wait until something goes wrong to consult an attorney, but in today's litigious society, that isn't the smartest idea. “Almost every business, whatever its size, requires a lawyer’s advice,” says James Blythe Hodge of the law firm Sheppard, Mullin, Richter & Hampton. “Even the smallest business has tax concerns that need to be addressed as early as the planning stages.”

In a crisis situation—such as a lawsuit or trademark wrangle—you may not have time to thoroughly research different legal options. More likely, you’ll end up flipping through the Yellow Pages in haste . . . and getting stuck with a second-rate lawyer. Better to start off on the right foot from the beginning by doing the proper research and choosing a good lawyer now. Many entrepreneurs say their relationship with a lawyer is like a marriage—it takes time to develop. That’s why it’s important to lay the groundwork for a good partnership early.

**Choosing an Attorney**

How do you find the right attorney? Ask for recommendations from business owners in your industry or from professionals such as bankers or accountants you trust. Don’t just get names; ask them for the specific strengths and weaknesses of the attorneys they recommend. Then take the process one step further: Ask your business associates’ attorneys whom they recommend and why. (Attorneys are more likely to be
helpful if you phrase the request as “If for some reason I couldn’t use you, who would you recommend and why?”) If you still need more prospects, contact your local Bar Association; many of them have referral services.

Next, set up an interview with the top five attorneys you’re considering. Tell them you’re interested in building a long-term relationship, and find out which ones are willing to meet with you for an initial consultation without charging a fee.

At this initial conference, be ready to describe your business and its legal needs. Take note of what the attorney says and does, and look for the following qualities:

- **Experience.** Although it’s not essential to find an expert in your particular field, it makes sense to look for someone who specializes in small-business problems as opposed to, say, maritime law. “Find someone who understands the different business structures and their tax implications,” says Hodge. Make sure the lawyer is willing to take on small problems; if you’re trying to collect on a small invoice, will the lawyer think it’s worth his or her time?

- **Understanding.** Be sure the attorney is willing to learn about your business’s goals. You’re looking for someone who will be a long-term partner in your business’s growth. Sure, you’re a startup today, but does the lawyer understand where you want to be tomorrow and share your vision for the future?

- **Ability to communicate.** If the lawyer speaks in legalese and doesn’t bother to explain the terms he or she uses, you should look for someone else.

When you are starting a business, you are short of money for just about everything—including legal services. Realizing this, many law firms offer a “startup package” of legal services for a set fee. This typically includes drawing up initial documents, attending corporate board meetings, preparing minutes, drafting ownership agreements and stock certificates, and offering routine legal advice.
Availability. Will the attorney be available for conferences at your convenience, not his or hers? How quickly can you expect emergency phone calls to be returned?

Rapport. Is this someone you can get along with? You’ll be discussing matters close to your heart, so make sure you feel comfortable doing so. Good chemistry will ensure a better relationship and more positive results for your business.

Reasonable fees. Attorneys charge anywhere from $50 to $1,000 or more per hour, depending on the location, size and prestige of the firm as well as the lawyer’s reputation and experience. Shop around and get quotes from several firms before making your decision. However, beware of comparing one attorney with another on the basis of fees alone. The lowest hourly fees may not indicate the best value in legal work because an inexperienced attorney may take twice as long to complete a project as an experienced one will.

References. Don’t be afraid to ask for references. Ask what types of businesses or cases the attorney has worked with in the past. Get a list of clients or other attorneys you can contact to discuss competence, service and fees.

Cost Cutters

For many entrepreneurs, the idea of consulting a lawyer conjures up frightening visions of skyrocketing legal bills. While there’s no denying that lawyers are expensive, the good news is, there are more ways than ever to keep a lid on costs. Start by learning about the various ways lawyers bill their time:

- **Hourly or per diem rate.** Most attorneys bill by the hour. If travel is involved, they may bill by the day.
- **Flat fee.** Some attorneys suggest a flat fee for certain routine matters, such as reviewing a contract or closing a loan.
- **Monthly retainer.** If you anticipate a lot of routine questions, one option is a monthly fee that entitles you to all the routine legal advice you need.
Contingent fee. For lawsuits and other complex matters, lawyers often work on a contingency basis. This means that if they succeed, they receive a percentage of the proceeds—usually between 20 and 50 percent. If they fail, they receive only out-of-pocket expenses.

Value billing. Some law firms bill at a higher rate on business matters if the attorneys obtain a favorable result, such as negotiating a contract that saves the client thousands of dollars. Try to avoid lawyers who use this method, which is also sometimes called “partial contingency.”

If you think one method will work better for you than another, don’t hesitate to bring it up with the attorney; many will offer flexible arrangements to meet your needs.

When you hire an attorney, draw up an agreement (called an “engagement letter”) detailing the billing method. If more than one attorney works on your file, make sure you specify the hourly rate for each individual so you aren’t charged $200 an hour for legal work done by an associate who only charges $75 an hour.

This agreement should also specify what expenses you’re expected to reimburse. Some attorneys expect to be reimbursed for meals, secretarial overtime, postage and photocopies, which many people consider the costs of doing business. If an unexpected charge comes up, will your attorney call you for authorization? Agree to reimburse only reasonable and necessary out-of-pocket expenses. No matter what methods your attorney uses, here are steps you can take to control legal costs:

Using paralegals as part of your legal team can be a good way to cut costs. Certain legal tasks—preparing a simple document, for instance—are straightforward enough that a paralegal may be able to handle them instead of a higher-priced lawyer. Don’t assume your lawyer will suggest this route; ask him or her about it. And always make sure the paralegal is supervised by a business lawyer.
PAY NOW, NOT LATER

A new method has arisen to take charge of skyrocketing legal fees. It’s called the prepaid legal plan, and more and more small businesses are using it.

Prepaid legal plans have been compared to HMOs because they offer certain basic services for a monthly fee. Prices range from as little as $10 a month to $100 or more; in return, an entrepreneur gets a package of services such as, say, unlimited phone consultation with a lawyer, review of three contracts per month, up to 10 debt collection letters per month and discounts on other legal services.

According to prepaid legal services firm Caldwell Legal, USA, 73 percent of all legal problems members bring can be resolved with a single telephone call.

Typically, prepaid legal services contract with one law firm in each state to handle routine matters. Because the service is usually that firm’s biggest client, business owners using the service receive a warmer welcome than they might at a big law firm. Specialists are usually available at reduced rates.

- Have the attorney estimate the cost of each matter in writing, so you can decide whether it’s worth pursuing. If the bill comes in over the estimate, ask why. Some attorneys also offer “caps,” guaranteeing in writing the maximum cost of a particular service. This helps you budget and gives you more certainty than just getting an estimate.

- Learn what increments of time the firm uses to calculate its bill. Attorneys keep track of their time in increments as short as six minutes or as long as half an hour. Will a five-minute phone call cost you $50?
When thinking about a prepaid legal service, here are some factors to consider:

- **What is included?** Check the plan to make sure it has what you need. The number of services offered at a reduced rate may be limited; what are the charges for other services?

- **Consider whether you’d prefer to build a relationship with one attorney rather than talk to a different lawyer every time you call.**

- **Ask other entrepreneurs who have used such services about the quality of work.** Also ask how the company handles conflicts of interest in case you have a dispute against a business that uses the same prepaid firm.

With these caveats in mind, a prepaid legal service firm could be just what a business on a budget needs. For more information, contact the American Prepaid Legal Services Institute at 321 N. Clark St., Chicago, IL 60654, call (312) 988–5751 or visit its website at aplsi.org.

- **Request monthly, itemized bills.** Some lawyers wait until a bill gets large before sending an invoice. Ask for monthly invoices and review them. The most obvious red flag is excessive fees; this means that too many people—or the wrong people—are working on your file. It’s also possible you may be mistakenly billed for work done for another client, so review your invoices carefully.

- **See if you can negotiate prompt-payment discounts.** Request that your bill be discounted if you pay within 30 days of your invoice date. A 5 percent discount can add thousands of dollars to your yearly bottom line.
When you're hit with a lawsuit, the costs can be mind-boggling—even if you win. That's why more and more small businesses are using alternative dispute resolution (ADR), a concept that includes mediation, arbitration and other ways of resolving disputes without resorting to litigation. Both in contracts between businesses or in agreements between employers and employees, people are consenting ahead of time to submit future disputes to ADR. Here are the most common forms of ADR:

- **Negotiation.** In the simplest form of ADR, the two parties (or their lawyers) discuss their differences and agree on a settlement.

- **Mediation.** When the two parties need more help in working out a solution, they can hire a neutral third party (a mediator) skilled in asking questions, listening and helping make decisions. The result is a written agreement to settle the dispute; both parties share the mediation costs.

- **Arbitration.** An arbitrator hears a case like a judge, then issues a decision. The parties have control over who hears the case—often, an expert in their field. In nonbinding arbitration, the arbitrator makes a recommendation that parties can accept or reject. In binding arbitration, the arbitrator's decision is legally binding.

- **Be prepared.** Before you meet with or call your lawyer, have the necessary documents with you and know exactly what you want to discuss. Fax needed documents ahead of time so your attorney doesn’t have to read them during the conference and can instead get right down to business. And refrain from calling your attorney 100 times a day.

- **Meet with your lawyer regularly.** At first glance, this may not seem like a good way to keep costs down, but you will be amazed at how much it reduces the endless rounds of phone tag that
plague busy entrepreneurs and attorneys. More important, a monthly five- or ten-minute meeting (even by phone) can save you substantial sums by nipping small legal problems in the bud before they even get a chance to grow.

**Making the Most of Your Lawyer**

Once your relationship with your lawyer is established, keep the lines of communication open. In addition to brief regular meetings, sit down with your attorney once annually to discuss the past year’s progress and your goals for the coming year. Meet at your place of business so the attorney can get to know your operation.

- **Mini-trial.** Less common, this gives both parties a sense of how their disagreement might resolve in court. They watch their lawyers argue the case as if they were at trial. In most cases, the parties are better able to see the other side and end up settling the case.

- **Summary jury trial.** Here, a jury of citizens hears a shortened trial and makes a nonbinding decision. Again, this usually helps the parties agree on a settlement.

Any time two parties enter a contract, they can include an agreement to submit any disputes to a specified type of ADR. Your attorney can help you draft a clause specifying how the situation will be handled. If you have employees sign an ADR agreement, make sure they understand that they will lose the option of a jury trial.

Even if you don’t have an ADR clause in your contracts, it’s still possible to suggest using ADR after a dispute arises. Once they understand how much money, time and aggravation ADR can save, the other side may agree to use it . . . even if they still don’t agree with you.
How can you tell if your attorney is doing a good job for you? The quickest measure is how many legal difficulties you’re having. Lawyers should be fending off legal problems. A good attorney identifies potential problems in advance.

Like any competent professional, a good lawyer also returns phone calls promptly, meets deadlines and follows through on promises. A good lawyer is thorough in asking for information and discerning your goals. And good lawyers either research what they do not know and explain your options, or refer you to someone who can help.

In evaluating the attorney’s work on any matter, consider whether you have been able to meet your goals. If you have met your goals without undue costs, the attorney is probably doing a good job. Once you have found a lawyer who understands your business and does a good job, you have found a valuable asset.

**Hiring an Accountant**

Don’t assume only big companies need the services of an accountant. Accountants help you keep an eye on major costs as early as the start-up stage, a time when you’re probably preoccupied with counting every paper clip and postage stamp. Accountants help you look at the big picture.

Even after the startup stage, many business owners may not have any idea how well they’re doing financially until the end of the year, when they file their tax returns. Meanwhile, they equate their cash flow with profits, which is wrong. Every dollar counts for business owners,
so if you don’t know where you stand on a monthly basis, you may not be around at the end of the year.

While do-it-yourself accounting software is plentiful and easy to use, it’s not the sole answer. Just as having Microsoft Word does not make you a writer, having accounting software doesn’t make you an accountant. Software can only do what you tell it to do—and a good accountant’s skills go far beyond crunching numbers.
In fact, perhaps no other business relationship has such potential to pay off. Nowadays, accountants are more than just bean counters. A good accountant can be your company’s financial partner for life—with intimate knowledge of everything from how you’re going to finance your next forklift to how you’re going to finance your daughter’s college education.

While many people think of accountants strictly as tax preparers, in reality, accountants have a wide knowledge base that can be an invaluable asset to a business. A general accounting practice covers four basic areas of expertise:

1. business advisory services
2. accounting and record-keeping
3. tax advice
4. auditing

These four disciplines often overlap. For instance, if your accountant is helping you prepare the financial statements you need for a loan, and he or she gives you some insights into how certain estimates could be recalculated to get a more favorable review, the accountant is crossing the line from auditing into business advisory services. And perhaps, after preparing your midyear financial statements, he or she might suggest how your performance year-to-date will influence your year-end tax liability. Here’s a closer look at the four areas:

1. Business advisory services. This is where accountants can really earn their keep. Since the accountant is knowledgeable about your business environment, your tax situation and your financial statements, it makes sense to ask him or her to pull all the pieces together and help you come up with a business plan and personal financial plan you can really achieve. Accountants can offer advice on everything from insurance (do you really need
business interruption insurance, or would it be cheaper to lease a second site?) to expansion (how will additional capacity affect operating costs?). Accountants can bring a new level of insight to the picture, simply by virtue of their perspective.

2. **Accounting and record-keeping.** Accounting and record-keeping are perhaps the most basic accounting discipline. However, most business owners keep their own books and records instead of having their accountant do it. The reason is simple: If these records are examined by lenders or the IRS, the business owner is responsible for their accuracy; therefore, it makes more sense for the owner to maintain them.

Where accountants can offer help is in initially setting up bookkeeping and accounting systems and showing the business owner how to use them. A good system allows you to evaluate your profitability at any given point in time and modify prices accordingly. It also lets you track expenses to see if any particular areas are getting out of hand. It lets you establish and track a budget, spot trends in sales and expenses, and reduce accounting fees required to produce financial statements and tax returns.

3. **Tax advice.** Tax help from accountants comes in two forms: tax compliance and tax planning. Planning refers to reducing your overall tax burden; compliance refers to obeying the tax laws.

4. **Auditing.** Auditing services are required for many different purposes, most commonly by banks as a condition of a
loan. There are many levels of auditing, ranging from simply preparing financial statements from figures that the entrepreneur supplies all the way up to an actual audit, where the accountant or other third party gives assurance that a company’s financial information is accurate.

Today, more and more accountants are moving into a fifth area: personal financial planning. For many, this is a natural extension of their familiarity with their clients’ financial affairs.

**Choosing an Accountant**

The best way to find a good accountant is to get a referral from your attorney, your banker or a business colleague in the same industry. If you need more possibilities, almost every state has a Society of Certified Public Accountants that will make a referral. Don’t underestimate the importance of a CPA (certified public accountant). This title is only awarded to people who have passed a rigorous two-day, nationally standardized test. Most states require CPAs to have at least a college degree or its equivalent, and several states also require post-graduate work.

Accountants usually work for large companies; CPAs, on the other hand, work for a variety of large and small businesses. When dealing with an accountant, you can only hope he or she is well-educated and well-versed in your business’s needs. Passing the CPA exam, however, is a guarantee of a certain level of ability. Once you have come up with some good candidates, a little preparation is in order before you interview them. The first step in setting the stage for a successful search is to take an inventory of what you will need. It is important to determine beforehand just how much of the work your company will do and how much of it will be done by the accountant.

Accounting services can be broken down into three broad categories: recording transactions, assembling them, and generating returns and financial statements. Typically, the latter part—that is, the generation of returns and financial statements—requires the
Mentors can be valuable sources of information at any stage of your company’s growth. It is always in your best interest to reach out to a variety of sources of information when you make decisions, advises SCORE. An SBA partner, SCORE offers 12,400 volunteer members and 364 chapters throughout the United States.

Mentors can often give you a fresh perspective on problems or challenges because they’re not personally involved with your business like other advisors, including attorneys, accountants and friends. For this reason, it’s important to find not only a mentor who has experience and knowledge, but also someone you can trust and feel at ease with.

Building a relationship takes work on your part, too. Everyone likes recognition, to get a note, to have someone say thank you. You get goosebumps just thinking about it. That’s better than anything for a mentor.

To get matched with a mentor, your first step should be locating your local SCORE chapter. Call (800) 634-0245, or visit score.org. If there’s not a chapter near you, no problem. SCORE also offers free e-mail counseling provided by its 12,400 volunteers.

Other mentoring resources can be found through networking in your community. Join the local chamber of commerce, Rotary Club or Toastmasters. Attend luncheons, seminars, and conferences related to your business and talk to guest speakers. Find out what types of business organizations closely match your company so you can team up with other individuals with similar interests and concerns. Developing these types of personal and business relationships can put you in touch with successful people who may be potential mentors.
highest level of expertise. But though the other activities require a lower skill level, many firms still charge the same hourly rate for them. Given the level of fees you are prepared to pay, you must decide where your responsibility stops and where the accountant’s begins.

Once you have compiled your documentation and given some thought to your expectations, you’re ready to interview your referrals. Five candidates is a good number to start with. For each candidate, plan on two meetings before making your decision. One of these meetings should be at your site; one should be at theirs. Both parties need to know the environment the other works in. During the ensuing interviews, your principal goal is to find out about three things: services, personality and fees.

1. Services. Most accounting firms offer tax and auditing services. But what about bookkeeping? Management consulting? Pension fund accounting? Estate planning? Will the accountant help you design and implement financial information systems? Other services a CPA may offer include analyzing transactions for loans and financing; preparing, auditing, reviewing and compiling financial statements; managing investments; and representing you before tax authorities.

Although smaller accounting firms are generally a better bet for entrepreneurs (see “The Size of It” on page 171), they may not offer all these services. Make sure the firm has what you need. If it can’t offer specialized services, such as estate planning, it may have relationships with other firms to which it can refer you to handle these matters. In addition to services, make sure the firm has experience with small business and with your industry. Someone who is already familiar with the financial issues facing your field of business won’t have to waste time getting up to speed.

2. Personality. Is the accountant’s style compatible with yours? Be sure the people you are meeting with are the same ones who will
THE SIZE OF IT

Are you dithering over the choice between that large, fancy law or accounting firm with offices in every corner of the globe, or that humble, one-person legal or accounting office down the street? Before you bust your budget to retain Squelch, Withers & Ream, know this: When it comes to professional service firms, bigger isn’t always better.

A big law or accounting firm may boast impressive credentials on your first meeting with them. The problem is that they usually boast an impressive price to match. What’s more, the hotshot you meet with on your initial conference may not be the person who will actually work on your legal cases or taxes. That task is likely to fall to a less experienced junior partner with limited know-how. This isn’t necessarily bad, but make sure you know who will be working on your file and what their experience is. Also be sure you’re billed correctly and don’t get charged $300 an hour for something a paralegal did.

Only you can decide what is right for you, but make sure you’re not being swayed by a big name or a fancy office. While a big law or accounting firm may be right for some small businesses’ needs, the reality is that your company will make up a much smaller share of such a firm’s client list. As such, you may not get the attention they’re devoting to bigger clients. In other words, if Standard Oil has a sudden tax emergency, your file is likely to get put on the back burner. This is one situation where it’s better to be a big fish in a small pond.

be handling your business. At many accounting firms, some partners handle sales and new business, then pass the actual account work on to others.

When evaluating competency and compatibility, ask candidates how they would handle situations relevant to you. For
example: How would you handle a change in corporation status from S to C? How would you handle an IRS office audit seeking verification of automobile expenses? Listen to the answers, and decide if that's how you would like your affairs to be handled.

Realize, too, that having an accountant who takes a different approach can be a good thing. If you are superconservative, it’s not a bad thing to have an accountant who exposes you to the aggressive side of life. Likewise, if you are aggressive, it’s often helpful to have someone who can show you the conservative approach. Be sure that the accountant won’t pressure you into doing things you aren’t comfortable with. It’s your money, and you need to be able to sleep at night.

3. Fees. Ask about fees upfront. Most accounting firms charge by the hour; fees can range from $100 to $275 per hour. However, there are some accountants who work on a monthly retainer. Figure out what services you are likely to need and which option will be more cost-effective for you.

Get a range of quotes from different accountants. Also try to get an estimate of the total annual charges based on the services you have discussed. Don’t base your decision solely on cost, however; an accountant who charges more by the hour is likely to be more experienced and thus able to work faster than a novice who charges less.

At the end of the interview, ask for references—particularly from clients in the same industry as you. A good accountant should be happy to provide you with references; call and ask

Find out how well-connected the CPA and his/her firm are before making a final decision. CPAs are often valuable resources for small businesses needing to borrow money or to raise capital from other sources. A well-connected CPA might help you get a foot in the door with a bank or investor.
how satisfied they were with the accountant’s services, fees and availability.

**Good Relations**

After you have made your choice, spell out the terms of the agreement in an “engagement letter” that details the returns and statements to be prepared and the fees to be charged. This ensures you and your accountant have the same expectations and helps prevent misunderstandings and hard feelings.

Make the most of the accounting relationship by doing your part. Don’t hand your accountant a shoebox full of receipts. Write down details of all the checks in your check register—whether they are for utilities, supplies and so on. Likewise, identify sources of income on your bank deposit slips. The better you maintain your records, the less time your accountant has to spend—and the lower your fees will be.

It’s a good idea to meet with your accountant every month. Review financial statements and go over any problems so you know where your money is going. This is where your accountant should go beyond number-crunching to suggest alternative ways of cutting costs and act as a sounding board for any ideas or questions you have.

A good accountant can help your business in ways you never dreamed possible. Spending the time to find the right accountant—and taking advantage of the advice he or she has to offer—is one of the best things you can do to help your business soar.

**TIP**

If you are starting a retail or service business involving a lot of cash, make sure the CPA has expertise in providing input on controlling your cash. As you grow, this becomes an increasingly vital issue, and a good CPA should be able to advise you in this area.
chapter 12  All in the Family  
Financing Starts with Yourself and Friends and Relatives

chapter 13  Nothing Ventured, Nothing Gained  
How to Find and Attract Investors

chapter 14  Looking for Loans  
The Ins and Outs of Debt Financing

chapter 15  Fed Funds  
How to Get Government Loans
Once you have decided on the type of venture you want to start, the next step on the road to business success is figuring out where the money will come from to fund it. Where do you start?

The best place to begin is by looking in the mirror. Self-financing is the number-one form of financing used by most business startups. In addition, when you approach other financing sources such as bankers, venture capitalists or the government, they will want to know exactly how much of your own money you are putting into the venture. After all, if you don’t have enough faith in your business to risk your own money, why should anyone else risk theirs?

Do It Yourself

Begin by doing a thorough inventory of your assets (the “Personal Balance Sheet” on page 179 can help with
You are likely to uncover resources you didn’t even know you had. Assets include savings accounts, equity in real estate, retirement accounts, vehicles, recreational equipment and collections. You may decide to sell some assets for cash or to use them as collateral for a loan.

If you have investments, you may be able to use them as a resource. Low-interest-margin loans against stocks and securities can be arranged through your brokerage accounts.

The downside here is that if the market should fall and your securities are your loan collateral, you’ll get a margin call from your broker, requesting you to supply more collateral. If you can’t do that within a certain time, you’ll be asked to sell some of your securities to shore up the collateral. Also take a look at your personal line of credit. Some businesses have successfully been started on credit cards, although this is one of the most expensive ways to finance yourself (see Chapter 14 for more on credit card financing).

If you own a home, consider getting a home equity loan on the part of the mortgage that you have already paid off. The bank will either provide a lump-sum loan payment or extend a line of credit based on the equity in your home. Depending on the value of your home, a home-equity loan could become a substantial line of credit. If you have $50,000 in equity, you could possibly set up a line of credit of up to $40,000. Home-equity loans carry relatively low interest rates, and all interest paid on a loan of up to $100,000 is tax-deductible. But be sure you can repay the loan—you can lose your home if you do not repay.

Consider borrowing against cash-value life insurance. You can use the value built up in a cash-value life insurance policy as a ready source of cash. The interest rates are reasonable because the insurance companies always get their money back. You don’t even have to make payments if you do not want to. Neither the amount you borrow nor the interest that accrues has to be repaid. The only loss is that if you die.
# Personal Balance Sheet

By filling out a personal balance sheet, you will be able to determine your net worth. Finding out your net worth is an important early step in the process of becoming a business owner because you need to find out what assets are available to you for investment in your business.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Checking</td>
<td></td>
</tr>
<tr>
<td>Savings Accounts</td>
<td></td>
</tr>
<tr>
<td>Real Estate/Home</td>
<td></td>
</tr>
<tr>
<td>Automobiles</td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
</tr>
<tr>
<td>Securities</td>
<td></td>
</tr>
<tr>
<td>Insurance Cash Values</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>A $</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Monthly Bills</td>
<td></td>
</tr>
<tr>
<td>Credit Card/Charge Account Bills</td>
<td></td>
</tr>
<tr>
<td>Mortgage</td>
<td></td>
</tr>
<tr>
<td>Auto Loans</td>
<td></td>
</tr>
<tr>
<td>Finance Company Loans</td>
<td></td>
</tr>
<tr>
<td>Personal Debts</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>B $</strong></td>
</tr>
</tbody>
</table>

Net Worth (A−B=C) **C $**

### Degree of Indebtedness

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Total Liabilities</td>
<td><strong>B $</strong></td>
</tr>
<tr>
<td>Total Assets</td>
<td><strong>A $</strong></td>
</tr>
<tr>
<td>Degree of Indebtedness</td>
<td><strong>D $</strong></td>
</tr>
</tbody>
</table>

*Note:* If total liabilities exceed total assets, subtract assets from liabilities to determine degree of indebtedness (B−A=D).
“If you think you can, you can. And if you think you can’t, you’re right.”
—Mary Kay Ash, Founder of Mary Kay Cosmetics

and the debt hasn’t been repaid, that money is deducted from the amount your beneficiary will receive.

If you have a 401(k) retirement plan through your employer and are starting a part-time business while you keep your full-time job, consider borrowing against the plan. It’s very common for such plans to allow you to borrow up to 50 percent of your vested account balance up to a maximum of $50,000. The interest rate is usually 1 to 2 percent above prime rate with a specified repayment schedule. The downside of borrowing from your 401(k) is that if you lose your job, the loan has to be repaid in a short period of time—often 60 days. Consult the plan’s documentation to see if this is an option for you.

Another option is to use the funds in your individual retirement account (IRA). Within the laws governing IRAs, you can actually

GOOD BENEFITS

If you have been laid off or lost your job, another source of startup capital may be available to you. Some states have instituted self-employment programs as part of their unemployment insurance systems.

People who are receiving unemployment benefits and meet certain requirements are recruited into entrepreneurial training programs that show them how to start businesses. This gives them an opportunity to use their unemployment funds for startup, while boosting their chances of success.

Contact the department in your state that handles unemployment benefits to see if such a program is available to you.
withdraw money from an IRA as long as you replace it within 60 days. This is not a loan, so you don’t pay interest. This is a withdrawal that you’re allowed to keep for 60 days. It’s possible for a highly organized entrepreneur to juggle funds among several IRAs. But if you’re one day late—for any reason—you’ll be hit with a 10 percent premature-withdrawal fee, and the money you haven’t returned becomes taxable.

If you are employed, another way to finance your business is by squirreling away money from your current salary until you have enough to launch the business. If you don’t want to wait, consider moonlighting or cutting your full-time job back to part time. This ensures you’ll have some steady funds rolling in until your business starts to soar.

People generally have more assets than they realize. Use as much of your own money as possible to get started; remember, the larger your own investment, the easier it will be for you to acquire capital from other sources.

**Friends and Family**

Your own resources may not be enough to give you the capital you need. “Most businesses are started with money from four or five different sources,” says Mike McKeever, author of *How to Write a Business Plan*. After self-financing, the second most popular source for startup money is composed of friends, relatives and business associates.

“Family and friends are great sources of financing,” says Tonia Papke, president and founder of MDI Consulting. “These people know you have integrity and will grant you a loan based on the strength of your character.”

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**WARNING**

Watch out for the relative or friend who agrees to lend you money even though he or she can’t really afford to.

“There will always be people who want to do anything they can to help you, who will give you funds that are critical to their future just because you ask for it,” says Mike McKeever, author of *How to Write a Business Plan*. “These relatives will not tell you they really can’t afford it, so you must be extra perceptive.”
It makes sense. People with whom you have close relationships know you are reliable and competent, so there should be no problem in asking for a loan, right? Keep in mind, however, that asking for financial help isn’t the same as borrowing the car. While squeezing money out of family and friends may seem an easy alternative to dealing with bankers, it can actually be a much more delicate situation. Papke warns that your family members or friends may think lending you money gives them license to meddle. “And if the business fails,” she says, “the issue of paying the money back can be a problem, putting the whole relationship in jeopardy.”

The bottom line, says McKeever, is that “whenever you put money into a relationship that involves either friendship or love, it gets very complicated.” Fortunately, there are ways to work out the details and make the business relationship advantageous for all parties involved. If you handle the situation correctly and tactfully, you may gain more than finances for your business—you may end up strengthening the personal relationship as well.

**The Right Source**

The first step in getting financing from friends or family is finding the right person to borrow money from. As you search for potential lenders or investors, don’t enlist people with ulterior motives. “It’s not a good idea to take money from a person if it’s given with emotional strings,” says McKeever. “For example, avoid borrowing from relatives or friends who have the attitude of ‘I’ll give you the money, but I want you to pay extra attention to me.’”

Once you determine whom you’d like to borrow money from, approach the person initially in an informal situation. Let the person know a little about your business, and gauge his or her interest. If the person seems interested and says he or she would like more information about the business, make an appointment to meet with them in a professional atmosphere. “This makes it clear that the subject of discussion will be your business and their interest in it,” says
McKeever. “You may secure their initial interest in a casual setting, but to go beyond that, you have to make an extra effort. You should do a formal sales presentation and make sure the person has all the facts.”

A large part of informing this person is compiling a business plan, which you should bring to your meeting. Explain the plan in detail, and do the presentation just as you would in front of a banker or other investor. Your goal is to get the other person on your side and make him or her as excited as you are about the possibilities of your business.

During your meeting—and, in fact, whenever you discuss a loan—try to separate the personal from the business as much as possible. Difficult as this may sound, it’s critical to the health of your relationship. “It’s important to treat the lender formally, explaining your business plan in detail rather than casually passing it off with an ‘if you love me, you’ll give me the money’ attitude,” says McKeever.

Be prepared to accept rejection gracefully. “Don’t pile on the emotional pressure—emphasize that you’d like this to be strictly a business decision for them,” says McKeever. “If relatives or friends feel they can turn you down without offending you, they’re more likely to invest. Give them an out.”

**Putting It on Paper**

Now it’s time to put the loan in motion. First, you must state how much money you need, what you’ll use it for and how you’ll pay it back. Next, draw up the legal papers—an agreement stating that the person will indeed put money into the business.
Start Your Own Business

Part 3  •  Fund

Startup Costs Worksheet

The following two worksheets will help you to compute your initial cash requirements for your business. They list the things you need to consider when determining your startup costs and include both the one-time initial expenses to open your doors and the ongoing costs you’ll face during the first 90 days.

**Startup Capital Requirements**

One-time Startup Expenses

<table>
<thead>
<tr>
<th>Startup Expenses</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>Promotion for opening the business</td>
<td></td>
</tr>
<tr>
<td>Starting inventory</td>
<td>Amount of inventory required to open</td>
<td></td>
</tr>
<tr>
<td>Building construction</td>
<td>Amount per contractor bid and other costs</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>Amount needed for the cash register</td>
<td></td>
</tr>
<tr>
<td>Decorating</td>
<td>Estimate based on bid, if appropriate</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td>Check with utility companies</td>
<td></td>
</tr>
<tr>
<td>Fixtures and equipment</td>
<td>Use actual bids</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>Bid from insurance agent</td>
<td></td>
</tr>
<tr>
<td>Lease payments</td>
<td>Fees to be paid before opening</td>
<td></td>
</tr>
<tr>
<td>Licenses and permits</td>
<td>Check with city or state offices</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>All other costs</td>
<td></td>
</tr>
<tr>
<td>Professional fees</td>
<td>Include CPA, attorney, etc.</td>
<td></td>
</tr>
<tr>
<td>Remodeling</td>
<td>Use contractor bids</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>Fee to be paid before opening</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>Cleaning, accounting, etc.</td>
<td></td>
</tr>
<tr>
<td>Signs</td>
<td>Use contractor bids</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>Office, cleaning, etc.</td>
<td></td>
</tr>
<tr>
<td>Unanticipated expenses</td>
<td>Include an amount for the unexpected</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Startup Costs</td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>


### Startup Costs Worksheet, continued

**Startup Capital Requirements**

**Ongoing Monthly Expenses***

<table>
<thead>
<tr>
<th>Startup Expenses</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank service fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit card charges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delivery fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dues and subscriptions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>Exclude amount on preceding page</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>See ** below</td>
<td></td>
</tr>
<tr>
<td>Lease payments</td>
<td>Exclude amount on preceding page</td>
<td></td>
</tr>
<tr>
<td>Loan payments</td>
<td>Principal and interest payments</td>
<td></td>
</tr>
<tr>
<td>Office expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll other than owner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>Exclude amount on preceding page</td>
<td></td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Your salary</td>
<td>Only if applicable during the first three months</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Ongoing Costs</strong></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td><strong>Total Startup Costs</strong></td>
<td>Amount from preceding page</td>
<td>$</td>
</tr>
<tr>
<td><strong>Total Cash Needed</strong></td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

*Include the first three months’ cash needs unless otherwise noted.

**Include amount required for inventory expansion. If inventory is to be replaced from cash sales, do not include here. Assume sales will generate enough cash for replacements.
Too frequently, business owners fail to take the time to figure out exactly what kind of paperwork should be completed when they borrow from family or friends. “Often small-business owners put more thought into figuring out what type of car to buy than how to structure this type of lending arrangement,” says Steven I. Levey of accounting firm GHP Financial Group. Unfortunately, once you’ve made an error in this area, it’s difficult to correct it.

Your loan agreement needs to specify whether the loan is secured (that is, the lender holds title to part of your property) or unsecured, what the payments will be, when they’re due and what the interest is. If the money is in the form of an investment, you have to establish whether the business is a partnership or corporation, and what role, if any, the investor will play. To be sure you and your family and friends have a clear idea of what financial obligations are being created, you have a mutual responsibility to make sure everyone is informed about the process and decide together how best to proceed.

Most important, says McKeever, “Outline the legal responsibilities of both parties and when and how the money should be paid back.” If your loan agreement is complex, it’s a good idea to consult your accountant about the best ways to structure the loan (see the “Taxing Matters” section next).

Whichever route you take, make sure the agreement is in writing if you expect it to be binding. “Any time you take money into a business, the law is very explicit: You must have all agreements written down and documented,” says McKeever. If you don’t, emotional and legal difficulties could result that end up in court. And if the loan isn’t documented, you may find yourself with no legal recourse.
Taxing Matters

Putting the agreement on paper also protects both you and your lender come tax time. Relying on informal and verbal agreements results in tax quagmires. “In these cases, you have a burden of proof to show the IRS that [the money] was not a gift,” says Tom Ochsenschlager, vice president of taxation for the American Institute of Certified Public Accountants. If the IRS views it as a gift because there was no intention to repay it, then the lender becomes subject to the federal gift tax rules and will have to pay taxes on the money if it is more than $13,000. Also make sure the person providing the money charges an interest rate that reflects a fair market value.

If your friend or family member wants to give you a no-interest loan, make sure the loan is not more than $100,000. If you borrow more, the IRS will slap on what it considers to be market-rate interest, better known as “imputed interest,” on the lender. That means that while your friend or relative may not be receiving any interest on the money you borrowed, the IRS will tax them as if they were.

No interest is imputed if the aggregate loans are less than $10,000. Between $10,000 and $100,000, the imputed amount is limited to your net investment income, such as interest, dividends and, in some cases, capital gains. To determine the interest rate on these transactions, the IRS uses what it calls the applicable federal rate, which changes monthly. Keep in mind that if you don’t put all the details of the loan in writing, it will be very difficult for you to deduct the interest you pay on it. Additionally, the relative who lent the money won’t be able to take a tax deduction on the loss if you find you can’t repay.

“Right now, today, with a little luck and brains and timing, any kid with a computer can do what Netscape has done. There are no barriers to entry anymore. Any kid can spark a revolution.”

—Marc Andreessen, co-founder of Netscape Communications
To be absolutely safe, Ochsenschlager recommends that you make the friend or relative who is providing the money one of the business’ shareholders. This effectively makes the transaction an investment in your company and also makes it easier from a tax standpoint for your friend or relative to write off the transaction as an ordinary loss if the business fails. (This applies only if the total amount your company received for its stock, including the relative’s investment, does not exceed $1 million.)

In addition, “if your company is wildly successful, your relative will have an equity interest in the business, and his or her original investment will be worth quite a bit more,” Ochsenschlager says. In contrast, if a relative gives you a loan and your company goes under, the relative’s loss would generally be considered a personal bad debt. This creates more of a tax disadvantage because personal bad debts can be claimed as capital losses only to offset capital gains. If the capital loss exceeds the capital gains, only $3,000 of the loss can be used against ordinary income in any given year. Thus, an individual making a large loan that isn’t repaid may have to wait several years to realize the tax benefits from the loss.

If the loan that can’t be repaid is a business loan, however, the lender receives a deduction against ordinary income and can take deductions even before the loan becomes totally worthless. (One catch: The IRS takes a very narrow view of what qualifies as a business loan. To qualify as a business loan, the loan would have to be connected to the lender’s business.) This will be difficult, so consult an accountant about the best way to structure the loan for maximum tax benefits to both parties.
Making your relative a shareholder doesn’t mean you’ll have to put up with Mom or Pop in the business. Depending on your company’s organizational structure, your friend or relative can be a silent partner if your company is set up as a partnership, or a silent shareholder if you are organized as an S corporation or limited liability company.

*Keep ‘Em Happy*

Even with every detail documented, your responsibilities are far from over. Don’t make assumptions or take people for granted just because they are friends or family members. Communication is key.

If your relative or friend is not actively involved in the business, make sure you contact him or her once every month or two to explain how the business is going. “When people invest in small businesses, it often becomes sort of their pet project,” says McKeever. “It’s important to take the time to keep them informed.”

And, of course, there are the payments. Though friends or relatives who invest in your business understand the risks, you must never take the loan for granted. “Don’t be cavalier about paying the money back,” McKeever says. “That kind of attitude could ruin the relationship.”

*How Much Is Enough?*

Before you begin planning for the cash needs of your business, you must figure out how much money you will need to live on for the first six to 12 months of your business’s operation. The best way to accomplish this is to create a budget that shows where you spent your money in the past 12 months. Make sure you look over the whole 12-month period, because expenses often change a lot from month to month. When creating the schedule, be on the lookout for expenses that could be reduced or eliminated if necessary. Use the form starting on page 190 to create your own budget.
# Monthly Budget

<table>
<thead>
<tr>
<th></th>
<th>JAN</th>
<th>FEB</th>
<th>MAR</th>
<th>APR</th>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
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<tr>
<td>Wages (take-home)—partner 1</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Wages (take-home)—partner 2</td>
<td></td>
<td></td>
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## Monthly Budget

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<td>Home repairs</td>
<td>Household</td>
<td>Income tax (additional)</td>
<td>Laundry and dry cleaning</td>
<td>Life insurance</td>
<td>Medical and dental</td>
<td>Mortgage payment or rent</td>
<td>Other debt payments</td>
<td>Telephone bill</td>
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No matter what type of financing source you approach—a bank, a venture capitalist or your cousin Lenny—there are two basic ways to finance a business: equity financing and debt financing. In equity financing, you receive capital in exchange for part ownership of the company. In debt financing, you receive capital in the form of a loan, which must be paid back. This chapter explains various types of equity financing; the following chapter explains debt financing.

Equity Basics

Equity financing can come from various sources, including venture capital firms and private investors. Whichever source you choose, there are some basics you should understand before you try to get equity capital. An investor’s “share in your company” comes in various forms. If your company is incorporated, the
One entrepreneur who wanted to open a restaurant got a list of potential investors by attending all the grand openings of restaurants in the area where he wanted to locate. By asking for the names of people who invested in those restaurants, he soon had enough contact names to finance his own business.

AHA!

An investor might bargain for shares of stock. Or an investor who wants to be involved in the management of the company could come in as a partner.

Keeping control of your company can be more difficult when you are working with outside investors who provide equity financing. Before seeking outside investment, make the most of your own resources to build the company. The more value you can add before you go to the well, the better. If all you bring to the table is a good idea and some talent, an investor may not be willing to provide a large chunk of capital without receiving a controlling share of the ownership in return. As a result, you could end up losing control of the business you started.

Don’t assume the first investor to express interest in your business is a godsend. Even someone who seems to share your vision for the company may be bad news. It pays to know your investor. An investor who doesn’t understand your business may pull the plug at the wrong time—and destroy the company.

**How It Works**

Because equity financing involves trading partial ownership interest for capital, the more capital a company takes in from equity investors, the more diluted the founder’s control. The question is, How much management are you willing to give up?

Don’t overlook the importance of voting control in the company. Investors may be willing to accept a majority of the preferred (non-voting) stock rather than common (voting) stock. Another possibility is to give the investor a majority of the profits by granting dividends to the preferred stockholders first. Or, holders of nonvoting stock can
get liquidation preference, meaning they’re first in line to recover their investment if the company goes under.

Even if they’re willing to accept a minority position, financiers generally insist on contract provisions that permit them to make management changes under certain conditions. These might include covenants permitting the investor to take control of the company if the corporation fails to meet a certain income level or makes changes without the investor’s permission.

Investors may ask that their preferred stock be redeemable either for common stock or for cash a specified number of years later. That gives the entrepreneur a chance to buy the company back if possible but also may allow the investor to convert to common stock and gain control of the company.

Some experts contend that retaining voting control is not important. In a typical high-growth company, the founder only owns 10 percent of the business by the time it goes public. That’s not necessarily bad, because 10 percent of $100 million is better than 100 percent of nothing. The key is how valuable the founder is to the success of the company. If you can’t easily be replaced, then you have a lot of leverage even though you may not control the business.

If the entrepreneur is good enough, the investors may find their best alternative is to let the entrepreneur run the company. Try not to get hung up on the precise percentage of ownership: If it’s a successful business, most people will leave you alone even if they own 80 percent. To protect yourself, however, you should always seek financial and legal advice before involving outside investors in your business.
**Venture Capital**

When most people think of equity financing, they think of venture capital. Once seen as a plentiful source of financing for startup businesses, venture capital—like most kinds of capital—is no longer so easy to come by. The ready to give, give, give venture capitalist is becoming very elusive.

Yes, there are venture capital firms out there. Quite a few, actually. There are websites you can go to, like Entrepreneur.com’s VC 100 (entrepreneur.com/vc100)—a directory of venture capital firms—and you may run into some luck. But at this point in time, luck is exactly what you need to convince venture capitalists to invest in your business. If you think we’re trying to discourage you, we are. Money can be found for investing in your company, but the era of the venture capitalist happily handing over forklifts of money is over—especially for startups.

Venture capital is most likely to be given to an established company with an already proven track record. If you are a startup, your product or service must be better than the wheel, sliced bread and the PC—with an extremely convincing plan that will make the investor a lot of money. And even that might not be good enough.

**Earth Angels**

The unpleasant reality is that getting financing from venture capital firms is an extreme long shot. The pleasant reality is that there are plenty of other sources you can tap for equity financing—typically with far fewer strings attached than an institutional venture capital deal. One source of private capital is an investment angel.

Originally a term used to describe investors in Broadway shows, “angel” now refers to anyone who invests his or her money in an
entrepreneurial company (unlike institutional venture capitalists, who invest other people’s money). Angel investing has soared in recent years as a growing number of individuals seek better returns on their money than they can get from traditional investment vehicles. Contrary to popular belief, most angels are not millionaires. Typically, they earn between $60,000 and $200,000 a year—which means there are likely to be plenty of them right in your backyard.

Where Angels Fly
Angels can be classified into two groups: affiliated and nonaffiliated. An affiliated angel is someone who has some sort of contact with you or your business but is not necessarily related to or acquainted with you. A nonaffiliated angel has no connection with either you or your business.

It makes sense to start your investor search by seeking an affiliated angel since he or she is already familiar with you or your business and has a vested interest in the relationship. Begin by jotting down names of people who might fit the category of affiliated angel.

■ Professionals. These include professional providers of services you now use—doctors, dentists, lawyers, accountants and so on. You know these people, so an appointment should be easy to arrange. Professionals usually have discretionary income available to invest in outside projects, and if they’re not interested, they may be able to recommend a colleague who is.

■ Business associates. These are people you come in contact with during the normal course of your business day. They can be divided into four subgroups:

1. Suppliers/vendors. The owners of companies who supply your inventory and other needs have a vital interest in your company’s success and make excellent angels. A supplier’s investment
may not come in the form of cash but in the form of better payment terms or cheaper prices. Suppliers might even use their credit to help you get a loan.

2. *Customers.* These are especially good contacts if they use your product or service to make or sell their own goods. List all the customers with whom you have this sort of business relationship.

3. *Employees.* Some of your key employees might be sitting on unused equity in their homes that would make excellent collateral for a business loan to your business. There is no greater incentive to an employee than to share ownership in the company for which he or she works.

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**NETTING ANGELS**

Looking for angels? Now there’s a simple way to find them–online. Go4Funding, an angel investor directory, lists dozens of angels and investment networks on its site at go4funding.com. The site also has links to several dozen articles that run the gamut from the pros and cons of angel investing to tips for how the angel/investor relationship should work.

Another user-friendly site for more in-depth information about angels is the Angel Capital Association (ACA). Although ACA is not a source of capital, this membership organization does provide plenty of information for entrepreneurs who are interested in raising angel capital. It also has an online directory of North American angel organizations sorted by region. It’s a great resource for leads, news and information about angels who are willing and able to support your venture. Visit ACA at angelcapitalassociation.org.
4. **Competitors.** These include owners of similar companies you don’t directly compete with. If a competitor is doing business in another part of the country and does not infringe on your territory, he or she may be an empathetic investor and may share not only capital, but information as well.

The nonaffiliated angels category includes:

- **Professionals.** This group can include lawyers, accountants, consultants and brokers whom you don’t know personally or do business with.

- **Middle managers.** Angels in middle management positions start investing in small businesses for two major reasons—either they’re bored with their jobs and are looking for outside interests, or they are nearing retirement or fear they are being phased out.

- **Entrepreneurs.** These angels are (or have been) successful in their own businesses and like investing in other entrepreneurial ventures. Entrepreneurs who are familiar with your industry make excellent investors.

**Make the Connection**

Approaching affiliated angels is simply a matter of calling to make an appointment. To look for nonaffiliated angels, try these proven methods:

- **Advertising.** The business opportunity section of your local newspaper or The Wall Street Journal is an excellent place to advertise for investors. Classified advertising is inexpensive, simple, quick and effective.

- **Business brokers.** Business brokers know hundreds of people with money who are interested in buying businesses. Even though

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“Quality, quality, quality: Never waver from it, even when you don’t see how you can afford to keep it up. When you compromise, you become a commodity and then you die.”

—Gary Hirshberg, Founder of Stonyfield Farm Yogurt
you don’t want to sell your business, you might be willing to sell part of it. Since many brokers are not open to the idea of their clients buying just part of a business, you might have to use some persuasion to get the broker to give you contact names. You’ll find a list of local business brokers in the Yellow Pages under “Business Brokers.”

■ *Telemarketing.* This approach has been called “dialing for dollars.” First you get a list of wealthy individuals in your area. Then you begin calling them. Obviously, you have to be highly motivated to try this approach, and a good list is your most important tool. Look up mailing-list brokers in the Yellow Pages. If you don’t feel comfortable making cold calls yourself, you can always hire someone to do it for you.

■ *Networking.* Attending local venture capital group meetings and other business associations to make contacts is a time-consuming approach but can be effective. Most newspapers contain an events calendar that lists when and where these types of meetings take place.

■ *Intermediaries.* These are firms that find angels for entrepreneurial companies. They are usually called “boutique investment bankers.” This means they are small firms that focus primarily on small financing deals. These firms typically charge a percentage of the amount of money they raise for you. Ask your lawyer or accountant for the name of a reputable firm in your area.

■ *Matchmaking services.* Matchmakers run the gamut from services that offer face time with investors to websites that post business plans for companies seeking investments. Fundraising success often hinges on the matchmaker’s screening process. In other words: Does the matchmaker have a rigorous selection process, or does it take money from anyone regardless of funding prospects? While rates vary, a matchmaking service may charge as much as $25,000 to locate investors, in addition to a percentage of funds raised. Before using any matchmaker, obtain a list of clients to assess recent successes and failures. A good place to
start is IdeaCrossing, which serves both the angel and venture capital communities. Its mission is to identify and screen new investment opportunities, then connect individuals with organizations to support and promote entrepreneurial activity. For more information, visit ideacrossing.org or Google “investor matchmaking.”

Angels tend to find most of their investment opportunities through friends and business associates, so whatever method you use to search for angels, it is also important to spread the word. Tell your professional advisors and people you meet at networking events, or anyone who could be a good source of referrals, that you are looking for investment capital. You never know what kind of people they know.

**Getting the Money**

Once you’ve found potential angels, how do you win them over? Angels look for many of the same things professional venture capitalists look for:

- **Strong management.** Does your management team have a track record of success and experience?
- **Proprietary strength.** Proprietary does not necessarily mean you must have patents, copyrights or trademarks on all your products. It just means that your product or service should be unusual enough to grab consumers’ attention.
- **Window of opportunity.** Investors look for a window of opportunity when your company can be the first in a market and grab the lion’s share of business before others.
- **Market potential.** Investors prefer businesses with strong market potential. That means a restaurateur with plans to franchise stands a better chance than one who simply wants to open one local site.
Return on investment. Most angels will expect a return of 20 to 25 percent over five years. However, they may accept a lower rate of return if your business has a lower risk.

If angels consider the same factors as venture capital companies, what is the difference between them? You have an edge with angels because many are not motivated solely by profit.

Particularly if your angel is a current or former entrepreneur, he or she may be motivated as much by the enjoyment of helping a young business succeed as by the money he or she stands to gain. Angels are more likely than venture capitalists to be persuaded by an entrepreneur’s drive to succeed, persistence and mental discipline.

That is why it is important that your business plan convey a good sense of your background, experience and drive. Your business plan should also address the concerns above and spell out the financing you expect to need from startup to maturity.

What if your plan is rejected? Ask the angel if he or she knows someone else your business might appeal to. If your plan is accepted, you have some negotiating to do. Be sure to spell out all the terms of the investment in a written agreement; get your lawyer’s assistance here. How long will the investment last? How will return be calculated? How will the investment be cashed out? Detail the amount of involvement each angel will have in the business and how the investment will be legalized.

Examine the deal carefully for the possibility of the investor parlaying current equity or future loans to your business into controlling interest. Such a deal is not made in heaven and could indicate you are working with a devil in angel’s garb.
Unlike equity financing, where you sell part of your business to an investor, debt financing simply means receiving money in the form of a loan that you will have to repay. There are many sources you can turn to for debt financing, including banks, commercial lenders and even your personal credit cards.

Types of Loans

You don’t need to pinpoint the exact type of loan you need before you approach a lender; he or she will help you decide what type of financing is best for your needs. However, you should have some general idea of the different types of loans available so you will understand what your lender is offering.

There is a mind-boggling variety of loans available, complicated by the fact that the same type of loan may
have different terms at different banks. For instance, a commercial loan at one bank might be written with equal installments of principal and interest, while at another bank the loan is written with monthly interest payments and a balloon payment of the principal.

Here is a look at how lenders generally structure loans, with common variations.

**Line-of-Credit Loans**

The most useful type of loan for the small business is the line-of-credit loan. In fact, it’s probably the one permanent loan arrangement every business owner should have with his or her banker since it protects the business from emergencies and stalled cash flow. Line-of-credit loans are intended for purchases of inventory and payment of operating costs for working capital and business cycle needs. They are not intended for purchases of equipment or real estate.

A line-of-credit loan is a short-term loan that extends the cash available in your business’s checking account to the upper limit of the loan contract. Every bank has its own method of funding, but, essentially, an amount is transferred to the business’s checking account to cover checks. The business pays interest on the actual amount advanced, from the time it is advanced until it is paid back.

Line-of-credit loans usually carry the lowest interest rate a bank offers since they are seen as fairly low-risk. Some banks even include a clause that gives them the right to cancel the loan if they think your business is in jeopardy. Interest payments are made monthly, and the principal is paid off at your convenience. It is wise to make payments on the principal often. Bankers may also call this a revolving line of credit, and they see it as an indication that your business is earning enough income.
Most line-of-credit loans are written for periods of one year and may be renewed almost automatically for an annual fee. Some banks require that your credit line be fully paid off for seven to 30 days each contract year. This period is probably the best time to negotiate.

Even if you don’t need a line-of-credit loan now, talk to your banker about how to get one. To negotiate a credit line, your banker will want to see current financial statements, the latest tax returns and a projected cash-flow statement.

**Installment Loans**

These loans are paid back with equal monthly payments covering both principal and interest. Installment loans may be written to meet all types of business needs. You receive the full amount when the contract is signed, and interest is calculated from that date to the final day of the loan. If you repay an installment loan before its final date, there will be no penalty and an appropriate adjustment of interest.

The term of an installment loan will always be correlated to its use. A business cycle loan may be written as a four-month installment loan from, say, September 1 until December 31, and would carry the low interest rate since the risk to the lender is under one year. Business cycle loans may be written from one to seven years, while real estate and renovation loans may be written for up to 21 years. An installment loan is occasionally written with quarterly, half-yearly or annual payments when monthly payments are inappropriate.

**Balloon Loans**

Though these loans are usually written under another name, you can identify them by the fact that the full amount is received when the
contract is signed, but only the interest is paid off during the life of the loan, with a “balloon” payment of the principal due on the final day.

Occasionally, a lender will offer a loan in which both interest and principal are paid with a single “balloon” payment. Balloon loans are usually reserved for situations when a business has to wait until a specific date before receiving payment from a client for its product or services. In all other ways, they are the same as installment loans.

**Interim Loans**

When considering interim loans, bankers are concerned with who will be paying off the loan and whether that commitment is reliable. Interim loans are used to make periodic payments to the contractors building new facilities when a mortgage on the building will be used to pay off the interim loan.

**Secured and Unsecured Loans**

Loans can come in one of two forms: secured or unsecured. When your lender knows you well and is convinced that your business is sound and that the loan will be repaid on time, he or she may be willing to write an unsecured loan. Such a loan, in any of the aforementioned forms, has no collateral pledged as a secondary payment source should you default on the loan. The lender provides you with an unsecured loan because it considers you a low risk. As a new business, you are highly unlikely to qualify for an unsecured loan; it generally requires a track record of profitability and success.

A secured loan, on the other hand, requires some kind of collateral but generally...
has a lower interest rate than an unsecured loan. When a loan is written for more than 12 months, is used to purchase equipment or does not seem risk-free, the lender will ask that the loan be secured by collateral. The collateral used, whether real estate or inventory, is expected to outlast the loan and is usually related to the purpose of the loan.

Since lenders expect to use the collateral to pay off the loan if the borrower defaults, they will value it appropriately. A $20,000 piece of new equipment will probably secure a loan of up to $15,000; receivables are valued for loans up to 75 percent of the amount due; and inventory is usually valued at up to 50 percent of its sale price.

**Letter of Credit**

Typically used in international trade, this document allows entrepreneurs to guarantee payment to suppliers in other countries. The document substitutes the bank’s credit for the entrepreneur’s up to a set amount for a specified period of time.

**Other Loans**

Banks all over the country write loans, especially installment and balloon loans, under a myriad of names. They include:

- Term loans, both short- and long-term, according to the number of years they are written for
- Second mortgages where real estate is used to secure a loan; usually long-term, they’re also known as equity loans
- Inventory loans and equipment loans for the purchase of, and secured by, either equipment or inventory
- Accounts receivable loans secured by your outstanding accounts
- Personal loans where your signature and personal collateral guarantee the loan, which you, in turn, lend to your business
- Guaranteed loans in which a third party—an investor, spouse, or the SBA—guarantees repayment (for more on SBA-guaranteed loans, see the following chapter)
Commercial loans in which the bank offers its standard loan for small businesses

Once you have an understanding of the different types of loans available, you are better equipped for the next step: “selling” a lender on your business.

Sources of Financing

When seeking debt financing, where do you begin? Carefully choosing the lenders you target can increase your odds of success. Here is a look at various loan sources and what you should know about each.

Bank On It

Traditionally, the paperwork and processing costs involved in making and servicing loans have made the small loans most entrepreneurs seek too costly for big banks to administer. Put plainly, a loan under $25,000—the type many startups are looking for—may not be worth a big bank’s time.

In recent years, however, the relationship between banks and small businesses has been improving as more and more banks realize the strength and importance of this growing market. With corporations and real estate developers no longer spurring so much of banks’ business, lenders are looking to entrepreneurs to take up the slack.

Many major banks have added special services and programs for small businesses; others are streamlining their loan paperwork and approval process to get loans to entrepreneurs faster. On the plus side, banks are marketing to small businesses like never before. On the downside, however, the

Federal, state and local governments all offer their own financing programs designed especially for small-business owners. These programs include low-interest loans, venture capital, and economic and scientific development grants. You can find reliable information on how and where to find these programs on the Business.gov website, which is affiliated with the U.S. government.
“streamlining” process often means that, more than ever, loan approval is based solely on numbers and scores on standardized rating systems rather than on an entrepreneur’s character or drive.

Given the challenges of working with a big bank, many entrepreneurs are taking a different tack. Instead of wooing the big commercial institutions, they are courting community banks, where “relationship banking” is the rule, not the exception. Even given today’s banking climate, it is easier to get a startup loan from community banks, according to the Independent Community Bankers of America. They can be a little more flexible, don’t have a bureaucracy to deal with, and are more apt to make character loans.

Do not get the idea that obtaining a loan from a community bank is a snap, however. You’ll still have to meet credit and collateral requirements just as you would at a larger institution. The difference: Smaller banks tend to give more weight to personal attributes. If the business is located in town, the banker likely already knows the entrepreneur, and the family has lived in the area for years; these things count more in a community bank.

Whether the bank you target is big or small, perhaps what matters most is developing relationships. If you have done your personal banking at the same place for 20 years and know the people with authority there, it makes sense to target that bank as a potential lender. If you do not have that kind of relationship at your bank, start to get to know bankers now. Visit chamber of commerce meetings; go to networking events; take part in community functions that local bankers or other movers and shakers are part of. A banker with a personal interest in you is more likely to look favorably on your loan application.

Boost your chances of getting a loan by finding a lender whose experience matches your needs. Talk to friends, lawyers or accountants...
and other entrepreneurs in the same industry for leads on banks that have helped people in your business. Pound the pavement and talk to banks about the type and size of loans they specialize in. Put in the work to find the right lender, and you’ll find it pays off.

**Commercial Finance Companies**

Banks aren’t your only option when seeking a loan. Nonbank commercial lenders, or commercial finance companies, have expanded their focus on small business in recent years as more and more small banks, which traditionally made loans to entrepreneurs, have been swallowed up in mergers. The advantage of approaching commercial finance companies is that, like community banks, they may be more willing to look beyond numbers and assets. Commercial finance companies give opportunities to startups and a lot of other companies banks will not lend to.

Here are some commercial finance companies to get you started:

- Funding Universe offers business loans of $10,000 to $200,000 for any purpose and up to $1 million with full income and asset documentation. Upon application, the company analyzes your funding situation and may recommend anything from an unsecured line of credit to venture capital investment. According to its website (businessloan.fundinguniverse.com), the company has assisted more than 64,000 entrepreneurs.

- Privately held *Commercial Finance Group* (cfgroup.net) specializes in providing finance solutions to small and mid-sized companies in a wide range of industries that are unable to qualify for bank financing.

- At Hartford, Connecticut-based *Business Lenders*, loan evaluators look beyond traditional lending criteria to consider management ability and character. “Somebody who has bad credit could still be a good credit risk,” says founder Penn Ritter. “It depends on why they had the credit problem.”

Commercial lenders require a business plan, personal financial statements and cash-flow projections and will usually expect you to
come up with 20 to 25 percent of the needed capital yourself. For more information about commercial finance companies, call the Commercial Finance Association at (212) 792-9390 or visit cfa.com.
Give Yourself Credit

One potentially risky way to finance your business is to use your personal credit cards. The obvious drawback is the high interest rates; if you use the cards for cash advances rather than to buy equipment, the rates are even higher.

Some entrepreneurs take advantage of low-interest credit card offers they receive in the mail, transferring balances from one card to another as soon as interest rates rise (typically after six months). If you use this strategy, keep a close eye on when the rate will increase. Sometimes, you can get the bank to extend the low introductory rate over the phone.

Experts advise using credit card financing as a last resort because interest rates are higher than any other type of financing. However, if you are good at juggling payments, your startup needs are low, and you are confident you’ll be able to pay the money back fairly quickly, this could be the route to take.

Applying for a Loan

The next step is applying for the loan. It’s important to know what you’ll need to provide and what lenders are looking for.

The Loan Application

Think of your loan application as a sales tool, just like your brochures or ads. When you put together the right combination of facts and figures, your application will sell your lender on the short- and long-term profit potential of lending money to your business.
To do that, the application must convince your lender that you will pay back the loan as promised and that your managerial ability (and future loans) will result in a profit-making partnership.

Banks are in the money-lending business. To lend money, they need evidence of security and stability. It’s that simple.

How can you provide this evidence when your business hasn’t even gotten off the ground? Begin by making sure your loan application is both realistic and optimistic. If you predict an increase in sales of between 8 and 12 percent, base your income projections on an increase of 10 percent, and then specify what you intend to do to ensure the additional sales.

Also make sure your application is complete. When a piece of an application is missing, bankers instantly suspect that either something is being hidden or the applicant doesn’t know his or her business well enough to pull the information together.

There are 12 separate items that should be included in every loan application. The importance of each one varies with the size of your business, your industry and the amount you are requesting.

1. Cover sheet
2. Cover letter
3. Table of contents
4. Amount and use of the loan
5. History and description of your business
6. Functions and background of your management team
7. Market information on your product or service
8. Financial history and current status

“You fail if you don’t try. If you try and you fail, yes, you’ll have a few articles saying you’ve failed at something. But if you look at the history of American entreprenuers, one thing I do know about them: An awful lot of them have tried and failed in the past and gone on to great things.”

—Richard Branson, Founder of The Virgin Group
9. Financial projections to demonstrate that the loan will be repaid
10. A list of possible collateral
11. Personal financial statements
12. Additional documents to support the projections

Many of these items are part of your business plan; a few of them will have to be added. Here’s a closer look at each section:

1. **Cover sheet.** This is the title page to your “book.” All it needs to say is “Loan application submitted by John Smith, Sunday’s Ice Cream Parlor, to Big Bucks Bank, Main Street, Anytown.” It should also include the date and your business telephone number.

2. **Cover letter.** The cover letter is a personal business letter to your banker requesting consideration of your application for a line of credit or an installment loan. The second paragraph should describe your business: “Our company is a sole proprietorship, partnership or corporation in manufacturing, distributing and retailing X type of goods.” The third paragraph is best kept to just one or two sentences that “sell” your application by indicating what your future plans are for your business.

3. **Table of contents.** This page makes it easy for your banker to see that all the documents are included.

4. **Amount and use of the loan.** This page documents how much you want to borrow and how you will use the loan. If you are buying a new piece of equipment, for instance, it should show the contract price, add the cost of freight and installation, deduct the amount you will be contributing, and show the balance to be borrowed.

5. **History and description of your business.** This is often the most difficult to write. The key is to stay with the facts and assume the reader knows nothing about your business. Describe, more fully than in the cover letter, the legal form of your business and its location. Tell why you believe the business is going to succeed. Conclude with a paragraph on your future plans.
6. **Management team.** Bankers know that it’s people who make things happen. Your management team might consist of every employee, if they oversee an important part of your operation, or it might be just you and one key person. It also includes any outside consultants you plan to use regularly, such as your accountant or banker. In one or two pages, list each person’s name and responsibilities. Where appropriate, describe the background that makes this person the right choice for that job.

7. **Market information.** You should begin these pages with a complete description of your product line or service, and the market it is directed toward. Next, describe how you have targeted your market niche and how successful you have been. Finally, detail your future plans to add new products or services.

8. **Financial history.** Most bankers want to see balance sheets and income (profit and loss) statements. As a startup, you will need to use projections. Bankers will compare these to norms in your industry.

9. **Financial projections.** This set of three documents—a projected income statement, balance sheet and cash-flow statement—should show how the business, with the use of the loan, will generate sufficient profits to pay off the loan. Your accountant can help you prepare these documents.

10. **Collateral.** Listing your available collateral—cash reserves, stocks and bonds, equipment, home equity, inventory and receivables—demonstrates your understanding that your banker will normally look for a backup repayment source. Each piece of collateral listed should be described with its cost and current fair market value.
11. *Personal financial statements.* As a startup, you will need to add your personal guarantee to any loan the bank makes. The banker will want to see your tax return and balance sheets showing personal net worth. Most banks have preprinted forms that make pulling these figures together relatively easy.

12. *Additional documents.* In this section, you can include whatever documents you feel will enhance your loan package. This might include a copy of the sales contract on a new piece of equipment, a lease and photograph of a new location, blueprints or legal documents. If you are introducing a new product or service, include a product brochure and additional market research information.

This section can help a new business overcome the lack of a track record. While glowing letters won’t make a banker overlook weak finances, an assurance from your largest customer that your services are valued can help your banker see your full potential.

**What Lenders Look For**

Your application is complete, with every “i” dotted and every “t” crossed. But is it enough to get you the cold, hard cash? What are lenders really looking for when they pore over your application? Lenders typically base their decisions on four criteria, often called the “Four C’s of Credit”:

1. *Credit.* The lender will examine your personal credit history to see how well you’ve managed your past obligations. If you have some black marks on your credit, the banker will want to hear the details and see proof that you repaid what you owed. A couple of late payments are not a big deal, but two or more
consecutive missed payments are. Get a copy of your credit history before you turn in your application. This way, you can find out about any problems and explain them before your banker brings them up.

2. **Character.** Character is hard to measure, but lenders will use your credit history to assess this as well. They take lawsuits, bankruptcies and tax liens particularly seriously in evaluating your character. They will also do a background check and evaluate your previous work experience.

3. **Capacity.** What happens if your business slumps? Do you have the capacity to convert other assets to cash, either by selling or borrowing against them? Your secondary repayment sources may include real estate, stocks and other savings. The lender will look at your business balance sheet and financial statement to determine your capacity.

4. **Collateral.** As a startup, you will most likely be seeking a secured loan. This means you must put up collateral—either personal assets, such as stocks or certificates of deposit, or business assets like inventory, equipment or real estate.

### A Loan at Last

A good relationship with your banker is just as important after you get that loan as it is in getting one in the first place. The key word is “communication.” The bank wants to be told all the good news—and bad news—about your business as soon as it occurs. Most business owners fear telling bankers bad news, but keeping problems hidden would be a mistake. Like any relationship, yours with your banker is built on trust. Keep him or her apprised of your business’s progress. Invite your banker to visit your business and see how the proceeds of the loan are being put to good use.

Once you’ve established a relationship with a banker, it is simple to expand your circle of friends at the bank. Every time you visit, spend some time meeting and talking to people, especially those further up the ladder. Often, the bankers will be the ones to initiate contact. Take
advantage of this opportunity. The more people you know at the bank, the easier it will be to get the next round of financing.

READ THE FINE PRINT

Hallelujah and yippee! You can almost hear the choirs of angels singing as your banker smiles and hands you the loan documents. You got the loan!

Not so fast. Before you sign that piece of paper, take a good look at what you're getting into. Many entrepreneurs are so excited about having their loans approved, they fail to read the fine print on their loan agreements. That can lead to trouble later on.

It's a good idea to get the loan documents ahead of time so you have a chance to review them for a couple of days before you sign, according to the American Bankers Association. Bankers won't have a problem sending advance copies of the documents but will generally do so only if they're specifically asked.

Most bankers will be happy to help you understand the fine print, but it's also a good idea to have your accountant and lawyer review the documents, too.

Although it varies slightly from bank to bank, a small-business loan package usually consists of several documents, typically including a loan agreement, a promissory note and some form of guarantee and surety agreement.

- **Loan agreement.** This specifies, in essence, the promises you are making to the bank and asks you to affirm that you are authorized to bind your business to the terms of the loan. Most banks require
you to verify that all the information on your loan application is still true before they disburse the loan.

- **Promissory note.** This details the principal and interest owed and when payments are due. It outlines the events that would allow the bank to declare your loan in default. Knowing these events ahead of time can help you protect your credit record. Look for “cure” language in the default section. A cure provision allows you a certain amount of time (usually 10 days) to remedy the default after you’ve been notified by the bank. If such a provision isn’t included, ask if it can be added to prevent you from defaulting accidentally (in case a payment is lost in the mail, for example). Also make sure you understand what the bank can and can’t do after declaring default.

- **Guarantee and surety agreement.** Because startups generally have insufficient operating history or assets on which to base a loan, banks usually require the loan to be guaranteed with your personal assets. The bank may ask you to secure the loan with the equity in your home, for example.
Where can you go when private financing sources turn you down? For many startup entrepreneurs, the answer is the U.S. Small Business Administration (SBA). The federal government has a vested interest in encouraging the growth of small business. As a result, some SBA loans have less stringent requirements for owner’s equity and collateral than do commercial loans, making the SBA an excellent financing source for startups. In addition, many SBA loans are for smaller sums than most banks are willing to lend.

Of course, that doesn’t mean the SBA is giving money away. In fact, the SBA does not actually make direct loans; instead, it provides loan guarantees to entrepreneurs, promising the bank to pay back a certain percentage of your loan if you are unable to.
Banks participate in the SBA program as regular, certified or preferred lenders. The SBA can help you prepare your loan package, which you then submit to banks. If the bank approves you, it submits your loan package to the SBA. Applications submitted by regular lenders are reviewed by the SBA in an average of two weeks, certified lender applications are reviewed in three days, and approval through preferred lenders is even faster.

The most basic eligibility requirement for SBA loans is the ability to repay the loan from cash flow, but the SBA also looks at personal credit history, industry experience or other evidence of management ability, collateral and owner’s equity contributions. If you own 20 percent or more equity in the business, the SBA asks that you personally guarantee the loan. After all, you can’t ask the government to back you if you’re not willing to back yourself. The SBA offers a wide variety of loan programs for businesses at various stages of development. Here’s a closer look:

**FOR WOMEN ONLY**

Women business owners have a friend in Washington: the Office of Women’s Business Ownership (OWBO), part of the SBA. The OWBO coordinates federal efforts that support women entrepreneurs through business training and technical assistance, and by providing access to financing, federal contracts and international trade opportunities.

In addition, the office directs Women’s Business Centers in all 50 states. Women’s Business Centers provide assistance, training and business counseling through the SBA. For information about OWBO services, call (800) U-ASK-SBA or visit sba.gov.
7(a) Guaranty Loan Program

The primary and the most flexible SBA loan program is the 7(a) Loan Program. The SBA does not lend money itself, but provides maximum loan guarantees of up to $2 million or 75 percent of the total loan amount, whichever is less. For loans that are less than $150,000, the maximum guarantee is 85 percent of the total loan amount. SBA policy prohibits lenders from charging many of the usual fees associated with commercial loans. Still, you can expect to pay a one-time guaranty fee, which the agency charges the lender and allows the lender to pass on to you.

A 7(a) loan can be used for many business purposes, including real estate, expansion, equipment, working capital and inventory. The

BUSINESS 101

Worried your business acumen isn’t as sharp as it could be? Wishing you had taken an accounting class instead of that film history course on John Wayne? Then the Small Business Training Network might be for you.

The Small Business Training Network is an internet-based learning environment—functioning like a virtual campus. As its website says, it offers online courses, workshops, information resources, learning tools and direct access to electronic counseling and other forms of technical assistance.

The classes run the gamut from how to start your own business—with titles like “Franchising Basics” and “Technology 101”—to how to prepare a loan package, develop employees and plan for retirement. The workshops are self-paced and usually extremely topical. Some classes were developed within the SBA, while others have been developed by academic institutions. For more information, log on to sba.gov/training.
money can be paid back over as long as 25 years for real estate and equipment and 10 years for working capital. Interest rates vary with the type of loan you apply for.

**SBAExpress Program**

A general 7(a) loan may suit your business’s needs best, but the 7(a) program also offers several specialized loans. One of them, the SBAExpress Program, promises quick processing for amounts less than $350,000. SBA Express can get you an answer quickly because approved SBAExpress lenders can use their own documentation and procedures to attach an SBA guarantee to an approved loan without having to wait for SBA approval. The SBA guarantees up to 50 percent of SBAExpress loans.

**CAPLines**

For businesses that need working capital on a short-term or cyclical basis, the SBA has a collection of revolving and nonrevolving lines of credit called CAPLines. A revolving loan is similar to a credit card, with which you carry a balance that goes up or down, depending on the payments and amounts you borrow. With nonrevolving lines of credit, you borrow a flat amount and pay it off over a set period of time.

CAPLine loans provide business owners short-term credit, with loans that are guaranteed up to $2 million. There are five loan and line-of-credit programs that operate under the CAPLines umbrella:

1. *Seasonal line of credit*: designed to help businesses during peak seasons, when they face increases in inventory, accounts receivable and labor costs
2. *Contract line of credit*: used to finance labor and material costs involved in carrying out contracts
3. *Standard asset-based line of credit*: helps businesses unable to meet credit qualifications associated with long-term credit; provides financing for cyclical, growth, recurring or short-term needs
SBA Loan Document Checklist

Documents to Prepare for a New Business

- Your SBA loan application form
- Your personal history statement with your resume and accomplishments and the resumes of key managers you plan to employ
- Statement of your investment capabilities
- Current financial statement of all personal liabilities and assets
- Projection of revenue statement
- Collateral list

Documents to Prepare for an Existing Business

- Balance sheet
- Profit and loss statements
- Income statement of previous and current year-to-date incomes, including business tax returns
- Personal financial statement with each owner itemized, including personal tax returns for each owner
- Collateral list
- Your dba or incorporation paperwork
- Copy of your business lease
- Loan request statement describing business history, loan amount and purpose

4. Small asset-based revolving line of credit: provides smaller, asset-based lines of credit (up to $200,000), with requirements that are not as strict as the standard asset-based program
If exporting is part of your business game plan, the Export-Import Bank of the United States (Ex-Im Bank) can be your biggest ally. The Ex-Im Bank is committed to supporting small exporters and provides many financing tools targeted to small businesses, such as working capital guarantees and export credit insurance.

With a working capital guarantee and credit insurance, small businesses can increase sales by entering new markets, expanding their borrowing base, and offering buyers financing while carrying less risk. Often, small exporters do not have adequate cash flow or cannot get a loan to fulfill an export sales order. The Ex-Im Bank working capital guarantee assumes 90 percent of the lender’s risk so exporters can access the necessary funds to purchase raw materials or supplies to fulfill an export order.

The export credit insurance protects an exporter from buyer payment default and also allows exporters to extend credit to their international buyers.

To be eligible for the Ex-Im Bank’s programs, U.S. exporters must simply meet the Small Business Administration’s definition of a small business and have export credit sales of less than $5 million. Business owners can contact the Ex-Im Bank directly at (800) 565-3946 or through any commercial lender that works with the agency (see the Lender Locator at exim.gov). Based in Washington, DC, the Ex-Im Bank also has regional offices in Chicago, Dallas, Houston, Miami, New York City, and Orange County, San Diego and San Francisco, California.

5. **Builder’s line of credit**: used to finance labor and materials costs for small general contractors and builders who are constructing or renovating commercial or residential buildings.
Each of the five credit lines has a maturity of up to five years but can be tailored to the borrower’s needs.

**Pre-Qualification Program**

The SBA's Pre-Qualification Loan Program helps pre-qualify borrowers in underserved markets, including women business owners. Under the program, entrepreneurs can apply for loans and get up to $250,000. With the aid of private intermediary organizations chosen by the SBA, eligible entrepreneurs prepare a business plan and complete a loan application. The intermediary submits the application to the SBA.

If the application is approved, the SBA issues you a pre-qualification letter, which you can then take, along with your loan package, to a commercial bank. With the SBA's guarantee attached, the bank is more likely to approve the loan.

**MicroLoan Program**

SBA financing isn't limited to the 7(a) group of loans. The MicroLoan Program helps entrepreneurs get very small loans, up to $35,000. The loans can be used for machinery and equipment, furniture and fixtures, inventory, supplies, and working capital, but they cannot be used to pay existing debts or to purchase real estate. This program is unique because it assists borrowers who generally do not meet traditional lenders' credit standards.

MicroLoans are administered through nonprofit intermediaries. These organizations receive loans from the SBA and then turn around and make loans to entrepreneurs. Small businesses applying for MicroLoan financing may be required to complete some business-skills training before a loan application is considered.
The maximum term for MicroLoans is six years, and the interest rates vary.

**CDC/504 Loan Program**

On the opposite end of the loan size spectrum is the 504 Loan, which provides long-term, fixed-rate loans for financing fixed assets, usually real estate and equipment. Loans are most often used for growth and expansion.

504 Loans are made through Certified Development Companies (CDCs)—non-profit intermediaries that work with the SBA, banks and businesses looking for financing. There are CDCs throughout the country, each covering an assigned region.

If you are seeking funds up to $1.5 million to buy or renovate a building or put in some major equipment, consider bringing your business plan and financial statements to a CDC. Typical percentages for this type of package are 50 percent financed by the bank, 40 percent by the CDC and 10 percent by the business.

In exchange for this below-market, fixed-rate financing, the SBA expects the small business to create or retain jobs or to meet certain public policy goals. Businesses that meet these public policy goals are those whose expansion will contribute to a business district revitalization, such as an empowerment zone; a minority-owned business; an export or manufacturing company; or a company whose expansion will contribute to rural development.

**Empowerment Zones/Renewal Communities**

Since 1980, 40 states have established programs to designate enterprise zones, offering tax breaks and other incentives to businesses that locate

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**AHA!**

Looking into exporting? Look into the U.S. Export Assistance Centers. These one-stop shops combine the trade promotion and export finance resources of the SBA, the U.S. Department of Commerce and the Export-Import Bank. Locate a center at export.gov/eac/index.asp.
in certain economically disadvantaged areas. States vary widely in the number of zones designated, incentives offered and success of the programs. In some areas, businesses may also qualify for lower utility rates or low-interest financing from eligible government jurisdictions. To be eligible for any of these incentives, businesses must generally meet certain criteria, such as creating new jobs in a community.

The Empowerment Zone/Renewal Communities initiative was set up to provide tax incentives and stimulate community investment and development. Specified urban and rural communities will receive grants and tax breaks for businesses in the area. The federal government's involvement means entrepreneurs in those areas can get federal tax breaks, not just state.

If you choose to locate in an enterprise or empowerment zone, look beyond the tax breaks to consider long-term concerns such as availability of a work force and accessibility of your target market. Make sure the zone offers other support services, such as streamlined licensing and permitting procedures. Most zones that succeed have high development potential to begin with, with good highway access, a solid infrastructure and a trainable labor force.

For more information on enterprise zones, contact your state's economic development department or call HUD's Office of Community Renewal at (202) 708-6339.

8(a) Business Development Program

The SBA's 8(a) program is a small-business set-aside program that allows certified socially and economically disadvantaged companies to enter the federal procurement market as well as the economic mainstream. The 8(a) program is envisioned as a starter program for minority businesses, which must leave the program after nine years.

“Customers aren’t just buying our software, they’re buying a relationship.”

—Katrina Garnett, Founder of Crossroads Software Inc.
Entrepreneurs who participate in the 8(a) program are eligible for the 7(a) Guaranty Loan and the Pre-Qualification Programs. Businesses must be owned by a socially and economically disadvantaged individual. Socially disadvantaged categories include race and ethnicity. To qualify as economically disadvantaged, the person must have a net worth of less than $250,000 as well as two years’ worth of tax returns.

**Export Working Capital Program**

If you are planning to export, you should investigate the Export Working Capital Program. This allows a 90 percent guarantee on loans up to $2 million. Loan maturity is one year, and funds can be used for transaction financing. The exports financed must be shipped and titled from the United States.

**Special Purpose Loans**

If you believe you have a special case that requires extra help, you may be in luck. Of course, keep in mind that everybody believes they deserve extra help with financing, but in many situations, the SBA has a loan program tailor-made for your situation. If you’re starting a
business, for instance, that pollutes the environment, but you plan to spend additional money to reduce the toxins you’re putting into the air, soil or water, you may be eligible for a Pollution Control Loan, which is basically a 7(a) loan earmarked for businesses that are planning, designing or installing a pollution control facility. The facility must prevent, reduce, abate or control any form of pollution, including recycling.

If your business plans to be active in international trade or your top competition is cheap imports, the International Trade (IT) Loan Program is something you should look into. The SBA can guarantee up to $1.75 million for fixed-asset financing (facilities and equipment) or refinancing of an existing loan for the same purposes. Working capital cannot be a part of an IT loan.

Numerous variations of the SBA’s basic loan programs are made available to support special needs. So if you believe your business might fall into a category in which the SBA can funnel additional loans to you, it’s definitely an avenue worth checking out.

Making the Most of the SBA

The SBA is more than a source of financing. It can help with many aspects of business startup and growth. The SBA is an excellent place to “get your ducks in a row” before seeking financing. SBA services include free resources to help you with such tasks as writing a business plan and improving your presentation skills—all of which boost your chances of getting a loan.
For more information on other SBA programs, visit the SBA’s website at sba.gov, call the SBA’s Answer Desk at (800) U-ASK-SBA, or contact your local SBA district office by visiting sba.gov/local resources/index.html. Your SBA district office can mail you a startup booklet and a list of lenders, and inform you about specialized loans tailored to your industry and where to go for help with your business plan or putting together financial statements.

**Granting Wishes**

When most people think of grants, they think of money given free to nonprofit organizations. But for-profit companies, and frequently startups, can also win grant money. But how do you find these grants? Unfortunately, locating the right grant is a little like looking for your soulmate. The grant is out there, but you’re going to have to do a lot of looking to find a good match. A good place to start is at your local bookstore. There are a lot of books about getting grants, with titles like *Grant Writing for Dummies* (Wiley) by Beverly A. Browning, *Grantseeker’s Toolkit* (Wiley) by Cheryl Carter New and James Quick, and *Demystifying Grantseeking* (Wiley) by Larissa Golden Brown and Martin John Brown. And then there’s the Bible of grant books—the annual *The Grants Register* (Palgrave Macmillan), which lists more than 4,200 grants.

There are other places to look, of course. The most logical place to get an infusion of cash is from Uncle Sam, but you can also win grants from foundations and even some corporations.

Even in the most economically challenged of times, the government is one of the best sources for grants. For instance, the National Institute of Standards and Technology’s Advanced Technology
Program offers grants to co-fund “high-risk, high-payoff projects” in order to provide Americans with a higher standard of living. Whatever the project is, you can bet it will be scrutinized by a board of qualified experts and academia.

The Small Business Innovation Research (SBIR) Program is another government program that gives grants. The SBIR Program specializes in small businesses looking for funding for high-risk technologies. Founded in 1982, the SBIR recently awarded funds for research in advanced metals and chemicals, biotechnology, information technology and manufacturing. So if you’re planning on opening a pizzeria, you might have trouble with this one.

But there are federal grants awarded to food and nutrition companies. For instance, a pizzeria that caters to children and specializes in serving nutritious, healthy pizzas may be able to win a grant. You can also check with your state or local government—start with your local or state chamber of commerce.

Of course, finding the grant is the easy part; the hard part is getting the grant. It’s a lot like applying to college. You have to jump through the hoops of each organization, which usually involves writing an extensive essay on why you need the money. There are grant-writing businesses out there as well as grant brokers—people who try to find the right grant for you. You pay them regardless of whether they find you a grant; on the other hand, if they land you a $750,000 grant, you still pay them the flat fee, which is generally from $25 to $100 an hour, depending on their level of success. But if you don’t have the funds to pay for a grant-writer or a broker, and you’re a decent writer and have a passion for your business, then start researching, and fill out the forms and compose the essay yourself. There’s no rule that says you can’t try to get a grant on your own. And who knows—you might be successful!
You have a great idea, a perfect plan, and the money to make it all happen. What’s the next step? Get set for business with Part 4, “Prepare.” First, we’ll show you how to get what you want out of every deal, with negotiating tips that will put you in the driver’s seat in any situation. Learn how to select a prime location that will get customers to come in and come back. We’ll show you retail operating options, such as kiosks and carts, plus how to negotiate the lease you want. Or maybe your plan is to start your business from home. If so, you’ll learn the steps to setting up a home office. Whether it’s at home or away, once you’ve found the right site, we share secrets for giving your business a professional image with furniture, business cards and stationery that all spell success. Next, stock your shelves with inventory: You’ll learn how to choose, track and maintain your product supply and discover the best sources for getting what you need.

Once you have the inventory, you have to sell it. That’s why in the next section, we discuss the most important part of business ownership—getting paid. We’ll reveal how to give your customers credit...
without getting taken, plus tips for accepting credit cards, debit cards and
checks and collecting on slow-paying accounts. Since every business needs to
use the mail, you won’t want to miss our guide to setting up mailing systems.
Discover how to choose the right equipment as well as the most efficient, con-
venient and economical ways to send mail.

If employees are part of your game plan, you’ll find all the information you
need to hire smart. Learn the secrets of a good job interview, low-cost hiring
options, and the laws you must know to stay out of hot water. Finally, protect the
business you’ve worked so hard to start by checking out our chapter on insurance.
We show you the basic insurance no business owner should be without, plus how
to put together the perfect insurance package for your needs.

Now, get geared up for business! Part 5, “Buy,” takes you step by step
through setting up your office. Office machines are more affordable than ever
these days, so it’s simple to get set up on a budget; we’ll show you the options,
from superstores and mail order to leasing and more.

Today’s technology can boost your business productivity like never before.
Whether you’re in the office, at home or on the road, we’ll explain the hardware
and software tools you need to make the most out of every working moment.
We’ll show you how to set up your business’s website, including choosing a web
designer and ISP, getting set for e-commerce and more. And finally, we’ll give you
the latest on how smartphones, VoIP, instant messaging and more can keep you
connected 24/7.
PREPARE

chapter 16
What’s Your Deal?
Negotiating Successfully

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Site Seeking
Choosing a Location for Your Business

chapter 18
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chapter 20
It’s in the Mail
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chapter 22
Cover Your Assets
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Staff Smarts
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chapter 24
Perk Up
Setting Employee Policies and Benefits
If you’re in business, you’re a negotiator. You have no choice. Business doesn’t happen unless two or more people enter into a transaction. This can be as simple as buying inventory or as complicated as a merger of two public companies. Without transactions, business doesn’t happen, and every transaction involves a certain amount of negotiation.

If I had to pick one of the scariest challenges facing every first-time entrepreneur, it would be learning how to negotiate. Nobody (except perhaps a lawyer) likes to negotiate—it’s confrontational, it involves a certain amount of “play acting,” and it may put you in the position of thinking you’re “putting something over” on another human being. In a big company, you had the luxury of hiring people to do this for you. Not anymore.

When you’re in business, negotiating the best possible deals is a high, if not the highest, priority. As a
business owner, you can’t know enough about negotiating.

**What Is Negotiation?**

It’s a lot easier to describe what negotiation “isn’t” than what it is. Let’s get some things straight upfront. Negotiation is not:

- a search for truth, justice and the American way
- a friendly discussion at the corner Starbucks
- a quest for the perfect solution to a business problem

Make no mistake: Negotiation is a game. Whether sellers have paid good money for something or are emotionally attached to it, they’ll want to get the most money they can from its sale. Buyers are worried about losing money and want to pay as little as possible for something so the chances of making a profit on resale are as high as possible. Somewhere between these two goals, there’s a deal waiting to happen.

The goal in negotiating is to win—to get the best deal you can. Period.

**Preparing for Negotiation**

To get ready for any negotiation, you must do three things:

1. **Know your bargaining position.** In every negotiation, someone is in a stronger position and someone is in a weaker position. Where are you?

   Let’s say you’re looking to lease 1,000 square feet of retail space in a shopping center. The landlord is a large commercial real estate developer with 2 million square feet of space in five major shopping malls in your town. How flexible do you think this landlord will be in the negotiation? Not very. One thousand
square feet is a drop in the bucket to this landlord, so you’ll be the one making all the concessions.

Now, let’s say you’re looking to lease 1,000 square feet of retail space in a strip mall. The landlord is a local widow whose husband died several years ago. The strip mall is the only property she owns, the 1,000 square feet is the largest tenant space in the mall, and it’s been vacant for the last six months. Who’s in the stronger position now?

You—and you’re crazy if you don’t take advantage of it. (See “The Golden Rule” on page 243.)
2. *Know how the other side perceives its position.* It isn’t enough to know what your real bargaining position is. You also have to consider how each side perceives its position. As any poker player knows, sometimes a mediocre hand can be a winning hand if it’s played properly. If the person with the mediocre hand can convince the other players that he or she has a much better hand than he or she actually has, and the other players (with better hands) buy into that, they’re likely to fold early to cut their losses, leaving the pot to the bluffer.

If your negotiating position isn’t great but you see the other side is worried about losing the deal, you can’t go wrong by coming on strong and playing to the other side’s fears.

3. *Assess your bargaining style.* Are you aggressive or passive by nature? I hate to say it, but in 25 years of studying lawyers, I’ve found that those who are naturally aggressive, fearless and downright ornery tend to make the best negotiators. People are afraid of them, want to avoid their nasty behaviors and give them what they want. To truly succeed at negotiating, it helps if you can find your inner Rottweiler. Remember, it’s a game.

I’m not saying you should yell, scream or threaten violence during a negotiation (although some negotiators use these techniques to great effect). You can be pleasant and communicate your willingness to get the deal done as quickly and efficiently as possible. Just make sure the other side doesn’t misinterpret your nice behavior as a sign of weakness, or you’ll lose the negotiation.
In any negotiation, the side that needs the deal more is the side that gives up the most—precisely because they need the deal and can’t afford to have the other side walk away from the table.

Winning the most points in a negotiation is almost always a function of: 1) not needing the deal as much as the other side does, 2) convincing the other side they need the deal more than you do, or 3) a combination of 1 and 2.

Nervous about negotiating? Here’s a great way to practice. Go to collectibles shows and look for items you don’t feel strongly about—you can take them or leave them. When you find one, approach the dealer and offer him 50 percent of the asking price. He’ll almost certainly refuse your offer—sometimes nicely, sometimes by pretending to be offended—but don’t worry about it. You don’t really want the item, and you know he paid less than 50 percent of the tag price. Thank him politely, tell him you really couldn’t justify paying more than 60 percent of the price, and move to the next booth.

Then, return to the dealer in the late afternoon and ask politely if he has reconsidered your offer. If the item hasn’t sold by then, the dealer is concerned about having to lug the thing back to his showroom and will be in a better bargaining mood. Stay firm. Remember the goal isn’t to add to your antiques collection, but to practice your negotiating skills. Make it a point to say no to whatever counteroffer he proposes, and walk away.

Do not try this if you see an item you really want—your body language will inevitably tip your hand to “the dealer,” and he will turn the tables on you by saying something like “I’m sorry, but I’m only making a 10 percent profit at this price.” At this point the negotiation is over—you’re reaching for your wallet, and you’ll pay the dealer’s price.
What Do You Want?

Now that you’re psychologically ready to sit down at the bargaining table, it’s time to figure out what you need to get out of the deal.

Sit down with a sheet of paper, fold it down the middle, and label each half “deal points” and “trading points.” Then list all the points you need to reach agreement on. Deal points are those you must win—if you can’t get those, you walk from the table and look for another deal. For example, if you paid $1,000 for a painting and need to get a 20 percent return on your inventory to stay afloat, getting a purchase price of at least $1,200 is one of your deal points.

Any point that isn’t a deal point is a trading point—nice if you can get it, but you can live without it if you sense it’s a deal point for the other person. In a negotiation, your goal is to get all your deal points and as many of your trading points as possible, recognizing that often you’ll have to yield one or more trading points to get your deal points.

Be realistic when identifying your deal points. A lot of things you negotiate for aren’t really life or death for your business. If you aren’t sure if you really need something or not, it’s a trading point.

The Negotiation Process

There are three basic steps in any negotiation—sometimes they happen in order, sometimes not.

- **Step one: State your position.** At the beginning of a negotiation, each side lays out its position and tells the other side what it needs. As soon as it’s apparent the two sides agree on something, that point is taken off the table so the parties can focus on the issues where they disagree.
■ Step two: Search for win-win compromises. Sometimes when a negotiator asks for something, what he or she really needs is a lot narrower. By probing the other side, you can often find a way to give them what they really need without giving them everything they’re asking for. Here’s an example: The other side wants you to promise you won’t compete with them anywhere in the State of X for five years. By asking probing questions, you learn that the other side doesn’t plan to do business outside of Town Y. You agree not to compete with the other side in Town Y for five years, and keep your options open for the rest of the state.

■ Step three: Do a little “horse trading.” Sooner or later, in every negotiation you get to a point where further compromise is impossible. For a deal to happen at this point, both sides have to engage in a little “horse trading.” You look at the list of three open points, realize that only one of them is a deal point, and offer to give on the other two points to get the one you need. If the other side agrees (one or both of the two points you gave them were deal points for them), you make the deal. If the other side refuses (your deal point was also their deal point), the negotiation’s over—and so is the deal.

Everything Is Negotiable
When you first start negotiating, it’s hard to separate deal points from trading points—everything seems important. Experienced negotiators know something you don’t—everything is a trading point. Nothing is non-negotiable. If you need the deal badly enough, you can give up some deal points and still survive to negotiate another day. As any lawyer will tell you, you know a deal’s been well-negotiated when both sides walk away from the table feeling at least somewhat disappointed in the outcome.
Sales Contract Negotiating Points

Do you think the only thing to negotiate in a sales contract is the purchase price? Think again. Here are some noncash terms you can negotiate.

- The number of goods to be sold
- The condition of the goods at the time of delivery
- Return privileges and/or credits for goods delivered in defective condition
- Rebates for goods that aren’t sold within a specified time period
- Shipping and delivery dates
- Method of shipping (UPS vs. FedEx, for example)
- Method of payment (money order vs. credit card, for example)
- Currency of payment (for international sales)
- Whether discounts will be offered for volume or bulk purchases
- The timing of payment (cash upfront vs. installment payments)
- The interest rate to be paid on any deferred portion of the purchase price
- The penalty rate of interest to be paid if any portion of the purchase price isn’t paid on time
- Whether the seller will have a lien on the goods until the purchase price is paid
- Whether the buyer’s principals will guarantee payment of the purchase price if the buyer defaults
- Whether the seller or buyer will pay sales and/or transfer taxes
- Whether the seller or buyer will insure the goods while in transit
- When title to the goods transfers from seller to buyer
- Whether or not the seller will “warrant” title or condition to the goods
- The sale closing date
Sales Contract Negotiating Points, continued

❑ Whether the seller will assume responsibility for the products’ liability and other legal claims if the goods turn out to be defective

❑ Whether the seller will provide the buyer with advertising and promotional materials to assist in the resale of goods

❑ If a broker was involved, who will pay his/her commission?
Where should you locate your business? One expert will tell you location is absolutely vital to your company’s success; another will argue that it really doesn’t matter where you are—and they’re both right. How important location is for your new company depends on the type of business and the facilities and other resources you need, and where your customers are.

If you’re in retailing, or if you manufacture a product and distribution is a critical element of your overall operation, then geographic location is extremely important. If your business is information- or service-related, the actual location takes a back seat to whether the facility itself can meet your needs.

Regardless of the nature of your business, before you start shopping for space, you need to have a clear picture of what you must have, what you’d like to have, what you absolutely won’t tolerate and how much
you’re able to pay. Developing that picture can be a time-consuming process that is both exciting and tedious, but it’s essential that you give it the attention it deserves. While many startup mistakes can be corrected later on, a poor choice of location is difficult—and sometimes impossible—to repair.

Types of Locations

The type of location you choose depends largely on the type of business you’re in, but there are enough mixed-use areas and creative applications of space that you should give some thought to each type before making a final decision. For example, business parks and office buildings typically have retail space so they can attract the restaurants and stores that business tenants want nearby. Shopping centers are often home to an assortment of professional services—accounting, insurance, medical, legal, etc.—as well as retailers. It’s entirely possible some version of nontraditional space will work for you, so use your imagination.

■ **Homebased.** This is probably the trendiest location for a business these days, and many entrepreneurs start at home and then move into commercial space as their business grows. Others start at home with no thought or intention of ever moving. You can run a homebased business from an office in a spare bedroom, the basement, the attic—even the kitchen table. On the plus side, you do not need to worry about negotiating leases, coming up with substantial deposits or commuting. On the downside, your room for physical growth is limited, and you may find accommodating employees or meetings with clients a challenge.

■ **Retail.** Retail space comes in a variety of shapes and sizes and may be located in free-standing buildings, enclosed malls, strip

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**AHA!**

If you’re in a technology-related business, choose a location near a university that can help you with research, provide a resource for further education for your staff, and serve as a breeding ground for future employees.
shopping centers, downtown shopping districts, or mixed-use facilities. You will also find retail space in airports and other transportation facilities, hotel lobbies, sports stadiums, and temporary or special-event venues.

- **Mobile.** Whether you’re selling to the public or to other businesses, if you have a product or service that you take to your customers, your ideal “location” may be a car, van or truck.

- **Commercial.** Commercial space includes even more options than retail. Commercial office buildings and business parks offer traditional office space geared to businesses that do not require a significant amount of pedestrian or automobile traffic for sales. You’ll find commercial office space in downtown business districts, business parks, and sometimes interspersed among suburban retail facilities. One office option to consider is an executive suite, where the landlord provides receptionist and secretarial services, faxing, photocopying, conference rooms and other support services as part of the package. Executive suites help you project the image of a professional operation at a more affordable cost and can be found in most commercial office areas. Some executive suites even rent their facilities by the hour to home-based businesses or out-of-towners who need temporary office space.

- **Industrial.** If your business involves manufacturing or heavy distribution, you will need a plant or a warehouse facility. Light industrial parks typically attract smaller manufacturers in non-polluting industries as well as companies that need showrooms in addition to manufacturing facilities. Heavy industrial areas tend to be older and

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**WARNING**

Be wary of incentives. Often incentives—such as free rent or tax breaks—may mask problems. There’s usually a good reason why any location offers incentives, and you need to be sure what it is before you sign up. You should be able to start a profitable business in that location without any incentives—and then let the incentives be a bonus.
Looking for a way to launch your business with the minimum investment possible? Then consider setting up shop in a home office rather than in a commercial space.

Working from home makes a lot of sense when you’re launching a business and have limited startup funds. In addition to saving beaucoup bucks on operating expenses like rent and utilities, you’ll save on commuting costs and wardrobe expenses. You may even be able to take a tax deduction equal to the percentage of your home that’s used as Business Central.

But there are some disadvantages to working from home. Clients may not find your cozy home office very professional. You personally may find it difficult to concentrate on work when the sun is shining, or when the mall, golf course, or your children are chanting your name. Friends and family also may drop in unannounced because you’re at home. And the list of distractions goes on.

Minimize those distractions by establishing your office in a spare room or quiet corner that can be dedicated strictly to the business. Furnish it with office furniture (even if second-hand) and invest in a business computer. Install a separate business phone line with voice mail. Then make it very clear to well-meaning visitors that you maintain regular business hours and that the computer is off-limits to the kids. If necessary, arrange to meet clients offsite if your home office doesn’t reflect your image as a savvy professional.

Finally, before you hang out that shingle, make sure your municipality doesn’t have any zoning ordinances that prohibit homebased businesses. Some communities ban certain types of businesses, including those that will generate a lot of traffic or have employees working onsite. Make sure you know the rules before you hang out your shingle.
poorly planned and usually offer rail and/or water port access. Though industrial parks are generally newer and often have better infrastructures, you may want to consider a free-standing commercial building that meets your needs and is adequately zoned.

**Issues to Consider**

With an overview of what’s available, you now need to decide what’s most appropriate for your business. Julien J. Studley, founder of Julien J. Studley Inc., a real estate firm that represents commercial tenants nationwide, says the major things tenants are looking for are the best possible deal on the space and an available work force. Be systematic and realistic as you consider the following points:

**Style of Operation**

Is your operation going to be formal and elegant? Or kicked-back and casual? Your location should be consistent with your particular style and image. If your business is retailing, do you want a traditional store, or would you like to try operating from a kiosk (or booth) in a mall or a cart that you can move to various locations? If you’re in a traditional mall or shopping center, will the property permit you to have a sidewalk sale if you want to? Can you decorate your windows the way you want to?

And here’s another option: Consider opening a pop-up retail location (see “Carte Blanche” on page 255). Pop-up retail operations suddenly “pop up” unannounced in highly visible locations, (hopefully) draw in big crowds, then vanish or transform themselves into another type of retail location.

Consider stockpiling space. If you’re reasonably sure you’re going to need additional space within a few years, it might be wise to lease a facility of that size now and sublease the extra space until you need it. That way, you’ll know the space will be available later on, and you won’t be faced with moving.
once they’ve raked in the cash. In some cases, these stores are in business for a ridiculously short period of time—from just a few days to just a few weeks. But they’re a great way to determine the local interest in your product, move product fast, and generate new excitement and interest in whatever you sell. Halloween and Christmas stores have been using the concept successfully for years, and some of the biggest mainstream retailers like Target, Toys R Us and the Gap have adopted the concept as well. Pop-up spaces are usually leased temporarily for a flat fee, so you won’t be locked into a typical retail lease of about five years. Since landlords are always desperate to lease space, all you generally have to do is ask to land a great pop-up location.

**Demographics**

There are two important angles to the issue of demographics. One is your customers; the other is your employees. First, consider who your customers are and how important their proximity to your location is. For a retailer and some service providers, this is critical; for other types of businesses, it may not be as important. The demographic profile you’ve developed of your target market will help you make this decision (see Chapter 7 for more on developing your target market).

Then, take a look at the community. If your customer base is local, is the population large enough, or does a sufficient percentage of that population match your customer profile to support your business? Does the community have a stable economic base that will provide a healthy environment for your business? Be cautious when considering communities that are largely dependent on a particular industry for their economy; a downturn could be a death knell for your company.

Now think about your work force. What skills do you need, and are people with those talents available? Does the community have the resources to serve their needs? Is there sufficient housing in the appropriate price range? Will your employees find the schools, recreational opportunities, culture and other aspects of the community satisfactory?
Especially when the economy is strong and unemployment figures are low, you may be concerned about the availability of good workers. Keep in mind that in many areas, few people may be unemployed, but many may be underemployed. If you are offering attractive jobs at competitive wages, you may find staffing your company easier than you thought.

Look beyond the basic employment statistics to find out what the job market is really like. Think about placing a blind test ad (the local

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**CART BLANCHE**

Cars and kiosks have become familiar sights in American malls, selling everything from inexpensive gift items to pricey jewelry and artwork. They make mall space affordable for the business owner, and the mall operators benefit from extra rent and a wider variety of merchandise.

Carts and kiosks have contributed to one of the hottest trends in retailing: Pop-up retailers. Most often these are seasonal businesses that only need to be open for a limited time. For example, a specialty candy shop may open just before Christmas and remain open through Mother’s Day, then close for the remainder of the year. Some pop-up retailers occupy traditional storefront space, but most opt for carts or kiosks. The most popular site for a pop-up operation is a busy mall, but many operators are also finding success in airports and other transportation facilities, at sporting events, and at other creative venues limited only by their imagination and ability to strike a deal with the property manager.

Consider using carts and kiosks to test your product in a retail setting before making the larger investment in a traditional store. Styles range from simple to elaborate; whatever you choose, be sure it’s attractive, well-lighted and functional.
economic development agency may do this for you) to see what type of response you will get in the way of applicants before making a final location decision.

Demographic information is available to you through a variety of resources. You could do the research yourself by visiting the library or calling the U.S. Census Bureau and gathering a bunch of statistics, then trying to figure out what they mean, but chances are you probably do not have the time or statistical expertise to do that. So why not let other people do it for you—people who know how to gather the data and translate it into information you can understand and use. Contact your state, regional or local economic development agency (see “To the Rescue” on page 258) or commercial real estate companies and use the data they’ve already collected, analyzed and processed.

**Foot Traffic**

For most retail businesses, foot traffic is extremely important. You don’t want to be tucked away in a corner where shoppers are likely to bypass you, and even the best retail areas have dead spots. By contrast, if your business requires confidentiality, you may not want to be located in a high-traffic area. Monitor the traffic outside a potential location at different times of the day and on different days of the week to make sure the volume of pedestrian traffic meets your needs.

**Accessibility and Parking**

Consider how accessible the facility will be for everyone who will be using it—customers, employees and suppliers. If you’re on a busy street, how easy is it for cars to get in and out of your parking lot? Is the facility accessible to people with disabilities? What sort of deliveries are you likely to receive, and will your suppliers be able to easily and efficiently get materials to your business? Small-package couriers need to get in and out quickly; trucking companies need adequate roads and loading docks if you’re going to be receiving freight on pallets.
Find out about the days and hours of service and access to locations you’re considering. Are the heating and cooling systems left on or turned off at night and on weekends? If you’re inside an office building, are there periods when exterior doors are locked and, if so, can you have keys? A beautiful office building at a great price is a lousy deal if you plan to work weekends but the building is closed on weekends—or they allow you access, but the air conditioning and heat are turned off so you roast in the summer and freeze in the winter.

Be sure, too, that there’s ample convenient parking for both customers and employees. As with foot traffic, take the time to monitor the facility at various times and days to see how the demand for parking fluctuates. Also, consider safety issues: The parking lot should be well-maintained and adequately lighted.

**Competition**

Are competing companies located nearby? Sometimes that’s good, such as in industries where comparison shopping is popular. (That’s why competing retail businesses, such as fast-food restaurants, antique shops and clothing stores, tend to cluster together.) You may also catch the overflow from existing businesses, particularly if you’re located in a restaurant and entertainment area. But if a nearby competitor is only going to make your marketing job tougher, look elsewhere.

**Proximity to Other Businesses and Services**

Take a look at what other businesses and services are in the vicinity from two key perspectives. First, see if you can benefit from nearby
businesses—by the customer traffic they generate, because those companies and their employees could become your customers, or because it may be convenient and efficient for you to be their customer.

Second, look at how they will enrich the quality of your company as a workplace. Does the vicinity have an adequate selection of restaurants so your employees have places to go for lunch? Is there a nearby day-care center for employees with children? Are other shops and services you and your employees might want conveniently located?

One of the best sources of information and assistance for startup and expanding businesses is state, regional and local economic development agencies. According to Ted M. Levine, founder and chairman of Development Counsellors International, a consulting firm specializing in economic development and travel marketing, there are nearly 20,000 economic development groups worldwide. Their purpose is to promote economic growth and development in the areas they serve. They accomplish that by encouraging new businesses to locate in their area, and to do that, they’ve gathered all the statistics and information you’ll need to make a decision.

Levine says economic development agencies will help any new business, regardless of size, in four primary ways:

1. Market demographics
2. Real estate costs and availability; zoning and regulatory issues
3. Work-force demographics
4. Referrals to similar companies and other resources

For the best overview, start with your state agency. The state agency can then guide you to regional and local groups for expanded information.
Image and History of the Site

What does this address say about your company? Particularly if you’re targeting a local market, be sure your location accurately reflects the image you want to project. It’s also a good idea to check out the history of the site. Consider how it has changed and evolved over the years.

Ask about previous tenants. If you’re opening a restaurant where five restaurants have failed, you may be starting off with an insurmountable handicap—either because there’s something wrong with the location or because the public will assume that your business will go the way of the previous tenants. If several types of businesses have been there and failed, do some research to find out why—you need to confirm whether the problem was with the businesses or the location. That previous occupants have been wildly successful is certainly a good sign, but temper that with information on what type of businesses they were.

Another historical point you’ll want to know is whether a serious crime, tragedy or other notable event occurred on the property. If so, will the public’s memory reflect on your operation, and is that reflection likely to be positive or negative?

Ordinances

Find out if any ordinances or zoning restrictions could affect your business in any way. Check for the specific location you’re considering as well as neighboring properties—you probably don’t want a liquor store opening up next to your day-care center.

The Building’s Infrastructure

Many older buildings do not have the necessary infrastructure to support the high-tech needs of contemporary operations. Make sure the
building you choose has adequate electrical, air conditioning and telecommunications service to meet your present and future needs. It is a good idea to hire an independent engineer to check this out for you so you are sure to have an objective evaluation.

Utilities and Other Costs

Rent composes the major portion of your ongoing facilities expense, but it’s not the only thing that’ll eat up your money. Consider extras such as utilities—they’re included in some leases but not in others. If
they’re not included, ask the utility company for a summary of the previous year’s usage and billing for the site. Also, find out what kind of security deposits the various utility providers require so you can develop an accurate move-in budget; however, you may not need a deposit if you have an established payment record with the company.

If you have to provide your own janitorial service, what will it cost? What are insurance rates for the area? Do you have to pay extra for parking? Consider all your location-related expenses, and factor them into your decision.

**Room for Growth**

Look at the facility with an eye to the future. If you anticipate growth, be sure the facility you choose can accommodate you. Keep your long-range plan in mind, even when short-term advantages make a location look attractive. A great deal on a place you’re likely to outgrow in a few years probably is not that great of a deal. Similarly, if there is evidence of pending decline in the vicinity, you should consider whether you want to be located there in five years.

**What Can You Expect To Pay?**

Real estate costs vary tremendously based on the type of facility, the region, the specific location and the market. A commercial real estate broker will be able to give you an overview of costs in your area. You may want to look at historical data—how has the rate for your type of facility fluctuated over the years? Also ask for forecasts so you know what to expect in the future. Understanding the overall market will be a tremendous help when you begin negotiating your lease.
### Location Worksheet

Answer the following questions by indicating whether it is a strength (S) or weakness (W) of the potential site as it relates to your business. Once you have completed a worksheet for each prospective location, compare the relative strengths and weaknesses of each site to help you choose the best one for your business.

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<thead>
<tr>
<th>QUESTION</th>
<th>S</th>
<th>W</th>
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<tbody>
<tr>
<td>Is the facility large enough for your business?</td>
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<tr>
<td>Does it meet your layout requirements well?</td>
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<tr>
<td>Does the building need any repairs?</td>
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<tr>
<td>Will you have to make any leasehold improvements?</td>
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<tr>
<td>Do the existing utilities meet your needs, or will you have to do any rewiring or plumbing work? Is ventilation adequate?</td>
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<td>Is the facility easily accessible to your potential clients or customers?</td>
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<tr>
<td>Can you find a number of qualified employees in the area in which the facility is located?</td>
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<tr>
<td>Is the facility consistent with the image you would like to maintain?</td>
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<tr>
<td>Is the facility located in a safe neighborhood with a low crime rate?</td>
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<tr>
<td>Are neighboring businesses likely to attract customers who will also patronize your business?</td>
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<tr>
<td>Are there any competitors located close to the facility? If so, can you compete with them successfully?</td>
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<tr>
<td>Can suppliers make deliveries conveniently at this location?</td>
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Commercial Leases

If you’ve never been involved in renting commercial space, your first glimpse of a commercial lease may be overwhelming. They are lengthy, full of jargon and unfamiliar terms, and always written to the landlord’s advantage. But they are negotiable. Whether you’re working on the deal yourself or using an agent, the key to successful lease negotiations is knowing what you want, understanding what the lease document says and being reasonable in your demands.

Especially for retail space, be sure your lease includes a bail-out clause, which lets you out of the lease if your sales don’t reach an agreed-on amount, and a co-tenancy clause so you can break the lease if an anchor store closes or moves. If you have to do a lot of work to get the space ready for occupancy, consider negotiating a construction allowance—generally $10 to $25 per square foot—to help offset the costs.

Be sure you clearly understand the difference between rentable and usable space. Rentable space is what you pay for; usable is what you can use and typically does not include hallways, restrooms, lobbies, elevator shafts, stairwells and so forth. You may be expected to pay a prorated portion of common area maintenance costs. This is not unusual, but be sure the fees are reasonable and that the landlord is not making

<table>
<thead>
<tr>
<th>Location Worksheet, continued</th>
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<tbody>
<tr>
<td>If your business expands in the future, will the facility be able to accommodate this growth?</td>
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<tr>
<td>Are the lease terms and rent favorable?</td>
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<tr>
<td>Is the facility located in an area zoned for your type of business?</td>
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Unless you have a significant amount of experience in shopping for commercial real estate, it’s a good idea to use a qualified real estate agent. Whether you are buying or leasing, an agent can help by pre-screening properties, which saves you time, and by negotiating on your behalf, which can save you money.

Typically the seller or landlord pays the agent’s commission, which may raise some questions in your mind about loyalty of the agent. However, keep in mind that the agent doesn’t get paid until a deal that satisfies you both is negotiated.

You may opt to use a tenant’s or buyer’s agent whom you pay yourself. In the real estate world, that’s called tenant (or buyer) representation. Especially in tight market situations, it may be to your advantage to invest in an advocate who will negotiate on your behalf. For more information about tenant representation and for help finding someone to assist you, contact the Society of Industrial and Office Realtors in Washington, DC, at (202) 449-8200 or visit sior.com.

Shop for a real estate agent as you would any professional service provider: Ask for referrals from friends and associates; interview several agents; be sure the agent you choose has expertise in the type of property or facility you need; check out the agent’s track record, professional history and reputation; clarify how the agent will be compensated and by whom; and draw up a written agreement that outlines your mutual expectations.

a profit on them. Also, check for clauses that allow the landlord the right to remodel at the tenant’s expense without approval, and insist on language that limits your financial liability.
Leasehold Improvements

Leasehold improvements are the nonremovable installations—either original or the results of remodeling—that you make to the facility to accommodate your needs. Such improvements are typically more substantial when renting new space, which may consist of only walls and flooring. Often existing space will include at least some fixtures. Get estimates on the improvements you’ll need to make before signing the lease so you’ll know the total move-in costs and can make a fair construction allowance request.

SPEAKING THE LANGUAGE

Following are some of the leases you may come across:

- **Flat lease.** The oldest and simplest type of lease, the flat lease sets a single price for a definite period of time. It generally is the best deal for the tenant but is becoming increasingly harder to find. (Caution: Avoid a flat lease if the term is too short; a series of short-term flat leases could cost you more in the long run than a longer-term lease with reasonable escalation clauses.)

- **Step lease.** The step lease attempts to cover the landlord’s expected increases in expenses by increasing the rent on an annual basis over the life of the agreement. The problem with step leases is that they are based on estimates rather than actual costs, and there’s no way for either party to be sure in advance that the proposed increases are fair and equitable.

- **Net lease.** Like a step lease, the net lease increases the rent to cover increases in the landlord’s costs but does so at the time they occur rather than on estimates. This may be more equitable than a step lease, but it’s less predictable.
Negotiating the Lease

The first lease the landlord presents is usually just the starting point. You may be surprised at what you can get in the way of concessions and extras simply by asking. Of course, you need to be reasonable and keep your demands in line with acceptable business practices and current market conditions. A good commercial real estate agent can be invaluable in this area.

Avoid issuing ultimatums; they almost always close doors—and if you fail to follow through, your next “ultimatum” will not mean much. Consider beginning the process with something that is close to your “best and final offer.” That way, your negotiations will not be lengthy and protracted, and you can either reach a mutually acceptable deal or move on to a different property. The longer negotiations take, the more potential there is for things to go wrong.

Cost-of-living lease. Rather than tying rent increases to specific expenses, this type of lease bases increases on the rises in the cost of living. Your rent will go up with general inflation. Of course, the prices for your products and services will also likely rise with inflation, and that should cover your rent increases, so this type of lease can be very appealing.

Percentage lease. This lease lets the landlord benefit from your success. The rent is based on either a minimum amount or a base amount, or a percentage of your business’s gross revenue, whichever is higher. Percentages typically range from 3 to 12 percent. With this type of lease, you’ll be required to periodically furnish proof of gross sales; to do this, you may allow the landlord to examine your books or sales tax records, or provide a copy of the appropriate section of your tax return. Percentage leases are common for retail space.
Business Lease Checklist

After you have chosen a particular site, check the following points before you sign the lease:

- Is there sufficient electrical power?
- Are there enough electrical outlets?
- Are there enough parking spaces for customers and employees?
- Is there sufficient lighting? Heating? Air conditioning?
- Do you know how large a sign and what type you can erect?
- Will your city’s building and zoning departments allow your business to operate in the facility?
- Will the landlord allow the alterations that you deem necessary?
- Must you pay for returning the building to its original condition when you move?
- Is there any indication of roof leaks? (A heavy rain could damage goods.)
- Is the cost of burglary insurance high in the area? (This varies tremendously.)
- Can you secure the building at a low cost against the threat of burglary?
- Will the health department approve your business at this location?
- Will the fire department approve your business at this location?
- Have you included a written description of the property?
- Have you attached drawings of the property to the lease document?
- Do you have written guidelines for renewal terms?
- Do you know when your lease payment begins?
- Have you bargained for one to three months of free rent?
- Do you know your date of possession?
Business Lease Checklist, continued

☐ Have you listed the owner’s responsibility for improvements?

☐ Do you pay the taxes?

☐ Do you pay the insurance?

☐ Do you pay the maintenance fees?

☐ Do you pay the utilities?

☐ Do you pay the sewage fees?

☐ Have you asked your landlord for a cap of 5 percent on your rent increase?

☐ Have you included penalty clauses in case the project is late and you are denied occupancy?

☐ Have you retained the right to obtain your own bids for signage?

☐ Can you leave if the center is never more than 70 percent leased?

☐ Has a real estate attorney reviewed your contract?

Essentially, everything in the lease is subject to negotiation, including financial terms, the starting rent, rent increases, the tenant’s rights and responsibilities, options for renewal, tenant leasehold improvements, and other terms and conditions. You or your agent can negotiate the lease, but then it should be drawn up by an attorney. Typically, the landlord or his attorney will draft the lease, and an attorney you hire who specializes in real estate should review it for you before you sign.

“Tonight, when you lay your head on your pillow, forget how far you still have to go. Look instead at how far you’ve already come.”

—Bob Moawad, Chairman and CEO of Edge Learning Institute
It Still Comes Down to You

Technology and statistics are important elements of your site selection decision, but nothing beats your personal involvement in the process. Real estate brokers and economic development agencies can give you plenty of numbers, but remember that their job is to get you to choose their location. To get a balanced picture, take the time to visit the sites yourself, talk to people who own or work in nearby businesses, and verify the facts and what they really mean to the potential success of your business.
These days, it is just not enough to create a terrific product, offer super service and have a solid business plan to back you up. Your company image is equally important to the overall success of your business.

Think about it. Every time you hand out your business card, send a letter or welcome a client into your office or store, you are selling someone on your company. Your business card, letterhead and signage—just like traditional print, radio and TV ads—are valuable selling tools. The look of your office also helps “sell” your business by conveying an image, whether it is that of a funky, creative ad agency or a staid, respectable accounting firm.

Fortunately, just because you are a startup company does not mean you have to look like one. Your logo, business card, signage and style are all part of a cohesive image program known as corporate identity. And with
the right corporate identity, your company can appear highly professional and give the impression of having been in business for years.

In this chapter, we will discuss how to create a corporate image that works.

**Office Space**

When you are a startup with limited capital, it may be tempting to put all your money into advertising and equipment and skimp on office furniture. How you furnish your office might not seem to matter, especially if your customers will not see it. And if your office is located at home, the dining room table might look like the most logical choice.

But a nicely furnished office is not just a matter of aesthetics. Grabbing whatever furniture is at hand and plunking it down without a thought to organization can put you at a major disadvantage in terms of productivity.

**Everything In Its Place**

Improving your own and your employees’ performance involves a lot more than finding comfortable chairs. It involves placement of offices or cubicles within the building, proximity to equipment, lighting, desk space, meeting areas, privacy and more. People spend most of their waking hours at the office, so its design has a tremendous effect on morale.

How can you create a high-performance office? The first step is addressing organizational issues . . . of who sits where. The days of big “power desks” and hierarchical corner offices are over. More businesses are turning to flexible environments ideal for small companies where the business owner probably doubles as salesperson.
With today’s emphasis on team-building, office design is moving away from compartmentalized offices and moving toward large spaces where teams of employees can work. When setting up your space, think about who needs to work with whom and which employees share what resources. If you group those people together, you enhance their productivity.

In addition to maximizing your own and your employees’ productivity, your office may also function as a marketing tool if clients or customers visit. Think about what visitors will see when they come by. Will they be bombarded with noise from one department near the entrance? Or will they see a series of closed doors with seemingly no activity taking place? Visitors should not be overwhelmed by chaos as they walk through your building, but they should see signs of life and get glimpses of the daily activities going on at your company.

**Putting It All Together**

Once considered some trendy European way to make business owners spend a lot of money, ergonomics has gained respect. Simply put, this term refers to designing and arranging furnishings and space to fit the natural movements of the human body. Ergonomics can help you and your employees avoid repetitive stress injuries from typing or bending and can prevent common problems, like back pain, which often sideline entrepreneurs and their employees.

Noise pollution is one of the biggest problems in many offices. One good way to decrease noise is to cover computer printers with sound shields. Covering a printer can cut noise by more than 90 percent . . . and increase concentration accordingly.

Buy adjustable chairs. A good chair allows the user to adjust the seat height and the tension of the backrest. The seat should angle forward
slightly to keep from cutting off your circulation. Boost the benefits of a good chair by providing footrests. Elevating the feet slightly while typing or sitting at a desk reduces lower back strain and improves circulation, keeping you more alert.

Make sure the desk and chair arrangement you choose allows you to keep the tops of your knuckles, the tops of your wrists and your forearms all in a straight line as you work on your computer. Your computer monitor should be at or below your eye level. Use an under-desk keyboard tray and monitor stand, if necessary, to get everything in line.

ON THE OUTSIDE

The inside of your office may look great, but don’t stop there. What about the outside? If the first impression a potential customer has of your business is a shabby door or an unkempt parking lot, you’re not sending the right message . . . and all your hard work in designing an attractive, efficient office could be going to waste.

Step outside your place of business and take a long, hard look at the parking lot, sidewalks, windows, outside lighting, landscaping and the outside of the building itself. A well-maintained building projects an industrious, professional image. Weeds, trash, broken sidewalks, tattered awnings, dirty windows, dead plants and overflowing trash containers send the message “We don’t care.”

Whether you’re in a retail location or an office building, take the time to check the property from the outside, and make sure it’s inviting and appealing every day.

“Obstacles are those frightful things you see when you take your eyes off your goal.”

—Hannah Moore, Author
Another often-ignored problem in offices is lighting. Too much or too little lighting causes eye strain and tiredness, decreasing productivity. To cut down on the glare, put filters on computer screens. Use individual lamps to illuminate desk work and help eyes adjust from overlit computer screens to underlit paper. Install miniblinds to let each employee control the amount of light to match the task at hand and the time of day.

You can find office furniture touted as ergonomic at a variety of sources, from office supply superstores to traditional office furniture retailers. Just because something claims to be ergonomic, however, does not mean it is right for you. Always test furnishings before you buy them. Sit in the chair and make sure it is comfortable; sit at the desk and make sure it is the right height. Make sure your desk and chair work together and that there is plenty of legroom under the desk.

When you buy furniture, look for solid construction, particularly in desks. The “ready to assemble” desks available at home or office superstores are often poor quality. Most are made of particleboard, which won’t stand up to heavy use. A better option for those on a budget is to buy used office furniture.

More and more furniture dealers nowadays sell used (also called “reconditioned”) office furniture. You can find everything from a single desk and chair to a full fleet of cubicles for your whole staff. Typically, furniture has been repaired and repainted where necessary. In some cases, you will be able to save 70 percent. You can find used furniture sources in the Yellow Pages, or look in your local newspaper’s classified ad section for individuals selling used pieces. Flea markets, auctions and estate sales can be other sources of used items.

**Designing a Logo**

Before you start designing a business card or picking colors for your letterhead, you need
Got a retail location? Ask yourself these questions to make sure your store has the “eye appeal” it needs to keep customers coming back:

■ Are your shelves clean and neat? Is merchandise displayed so people can see it easily?
■ Is the area around your cash registers or terminals clean and orderly?
■ Can you find forms, packaging and related materials quickly and easily?
■ Are light fixtures clean, bright and working properly?
■ Is there plenty of room between counters and shelves so that aisles are wide and free of barriers?
■ Are glass surfaces clean and floors vacuumed or swept and scrubbed regularly?

A logo. Featuring your company name, embellished with a little color and perhaps a few graphic touches here and there, your logo is the most important design element because it is the basis for all your other materials: stationery, packaging, promotional materials and signage.

Through the use of color and graphics, your logo should reflect the overall image you want your company to convey, advises Interbrand, a brand identity and marketing company. It should give people a feel for what your company is all about.

For example, say your product is an organic facial cream you will be marketing to health-conscious consumers. Your logo should represent your product’s best benefits—being all-natural and environmentally sound. Creating a simple, no-nonsense logo using earth tones and a plain typeface will give the impression of a product that is “back to basics,” which is exactly what you want to achieve. Take that same product and give it a slick, high-tech look with neon colors, however,
and people won’t associate your logo with the down-to-earth product you’re selling.

Logos come in two basic forms: abstract symbols (like the apple in Apple Computer) or logotypes, a stylized rendition of your company’s name. You can also use a combination of both. Alan Siegel, chairman of Siegel+Gale, a design firm specializing in corporate identity, warns that promoting an abstract symbol can prove very costly for a small business on a budget. In addition, he says, such logos are harder to remember. “A logotype or word mark is much easier to recall,” says Siegel. “If you use an abstract symbol, always use it in connection with your business name.”

Trying to create a logo on your own may seem like the best way to avoid the high costs of going to a professional design firm, which will charge thousands for a logo alone. However, be aware that there are a lot of independent designers, including many who advertise online, who charge much less. According to Stan Evenson, founder of Evenson Design Group, “Entrepreneurs on a tight budget should shop around for a designer. There are a lot of freelance designers who charge rates ranging from $35 to $150 per hour, based on their experience. But don’t hire someone because of their bargain price. Find a designer who’s familiar with your field . . . and your competition. If the cost still seems exorbitant, remember that a good logo should last at least ten years. If you look at the amortization of that cost over a ten-year period, it doesn’t seem so bad.”

Even if you have a good eye for color and a sense of what you want your logo to look like, you should still consult a professional designer. Why? They know whether or not a logo design will transfer easily into print or onto a sign, while you might come up with a beautiful design

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**Evaluate business card designs with these criteria in mind:**

- Is the card easy to read?
- Does the design catch your eye? (A good designer can make even an all-type card appealing.)
- Is your name or the business’s name immediately identifiable?
that can’t be transferred or would cost too much to be printed. Your logo is the foundation for all your promotional materials, so this is one area where spending a little more now really pays off later.

**Business Cards**

Once you have your logo, it’s time to apply it to the marketing items you will use most, such as business cards. A good business card should convey the overall image of your business—not easy, considering the card measures only two inches by three inches. How can you possibly get a message across in such a small amount of space?

You can’t expect your business card to tell the whole story about your company. What you should expect it to do is present a professional image people will remember. “A business card can make or break a client’s first impression of your company,” says Evenson. That little card makes as much of an impression as your personal appearance—the suit you wear or the briefcase you carry.

The color, wording and texture of your business card have a lot to do with its appeal and its ability to convey your company image. Use common sense when you are designing your business card. If your business markets children’s toys and games, you might try using bright, primary colors and words written in a child’s script. On the other hand, if you run a financial consulting service, then you want your business card to convey professionalism and reliability, so stick to traditional looks such as black printing on a gray, beige or white background.

Of course, professional designers claim entrepreneurs should not try to attempt designing a business card on their own, but many cash-strapped business owners have no other choice. The best course of
action: Look at all the business cards you receive, and emulate the cards that you like. You have more leeway if you are in a creative business, such as party planning or retailing, but in general, keep the following tips in mind:

- *Use your logo as the basis.* Make it the largest element on the card.
- *Keep it simple.* Do not cram too much information on the card.
- *Do include the essentials*—your name, title, company name, address, phone and fax numbers, and e-mail and website addresses.
- *Make sure the typeface is easily readable.*

### IN THE CARDS

Business cards don’t have to be boring. If your industry allows for a little creative flair, here are some ideas to try.

- *Use 4-inch-by-7-inch cards that fold over* (like a minibrochure), *cards made of plastic or cards with photos on them.* If your business relies on a lot of phone contact, consider cards that are pre-punched to fit in a Rolodex.

- *Although they are more expensive than standard business cards,* *cards in nontraditional shapes get attention.* Try a teddy bear shape for a day-care service, for example, or a birthday cake for a party planner.

- *Textured paper can add to a card’s interest* (make sure it does not detract from readability, though), *as can colored paper.* In general, stay with lighter shades that enhance readability.

- *Thermography,* a process that creates raised, shiny print, *adds interest to a card.* Embossing and foil stamping are two other printing processes that can give your card visual appeal.
Stick to one or two colors.

Once you’ve got business cards, make the most of them:

- Always give people more than one card (so they can give it to others).
- Include your card in all correspondence.
- Carry cards with you at all times, in a card case so they’re clean and neat.

Selecting Stationery

Every time you mail a letter to a prospective client or to an existing customer, the missive leaves a long-lasting impression of your company. In a service business, your written materials are among your company’s most important marketing items. And if you run a homebased business that doesn’t have a commercial location or sign, introducing your company to clients through the mail can be one of your most effective marketing techniques. The paper stock you choose, as well as the colors and graphics embellishing it, plays an important role in the image your stationery presents to your customers. A neon pink stock may work well for a new suntan lotion manufacturer, but not for an accounting service. Your stationery should tie in with your business cards, featuring the same color scheme and overall look.

Do not get so caught up in the design elements of your business stationery that you forget the obvious. Every piece of business stationery should include the basics: company name or logo, address, e-mail and website addresses, and phone and fax numbers. You
want to make it as easy as possible for your clients to respond to your offer by making all the information they need readily available. Attach your business card to each letter as well, so clients can put it in their Rolodexes for future reference.

**Designing Your Sign**

Retailers and restaurateurs alike realize the power of a good sign. Some companies rely on drive-by or walk-by traffic for customers, and if that’s the case with your company, your sign may be the most important element of your entire corporate identity.

A good sign must do more than just attract attention; it also has to be readable from a good distance. That’s why your original logo is so important—one that looks great on a tiny business card may not transfer well to a huge sign above your store. Clearly, going to a professional in the first stages of developing your image is essential. If you find out your great logo can’t be reproduced on a sign, you’ll have to go back to square one and rethink your logo, which will end up costing you more in the long run.

In recent years, a whole host of new signage materials has emerged to provide more variety and individuality. This also means it’s harder to choose among all the possibilities, which include neon, plastic, metal, wood and more. Do some investigating before making your final decision; there is a wide range of prices for various materials. Depending on your location, sign placement can make a big difference, too. Options include a free-standing sign, a wall sign, a projecting sign or a roof sign.

Since you probably don’t have the know-how or the equipment necessary to make a sign yourself, you will have to go to an outside
manufacturer. Do not expect manufacturers to offer suggestions or point out any problems with your design if you have come up with one on your own. That’s not their job.

Before you head to the manufacturer with your design specifications, check your local zoning laws. You may find that the design you’ve come up with for your fried chicken restaurant—a 30-foot neon number in the shape of a chicken—isn’t allowed in your area. If you are moving into a shopping center, the developer may have additional regulations governing signage that can be used in the facility.

Most entrepreneurs need professional assistance with signage since they do not have experience in this area. You probably will not know how big the letters should be to be visible from down the block, and you may not know which materials fare best in inclement weather. For this reason, you should visit a professional—either a designer or a sign fabricator. A good designer knows when fabricators are cutting corners and not using the material requested or doing a shoddy job. A designer will also be present at the time of installation to make sure the sign is properly installed.

The cost of a sign varies greatly depending on the materials, type of sign and whether it’s lighted. Buying directly from a fabricator can cost as little as $500, but you run the risk of not meeting zoning requirements. If you hire a designer, you’ll pay a design fee in addition to fabrication costs, but you have a better guarantee that the finished product will work for you.

TIP
Keep your business cards and letterhead current. If your area code changes, toss your old stationery and cards and have new ones printed. Use it as an excuse to call everyone on your prospect list and remind them what you can do for them.
Where would an apparel company be without clothing? An auto supply store without auto parts? A computer company without computers? Nowhere, of course. Understanding and managing your inventory is one of the most critical factors in business success.

Yet many entrepreneurs fail to answer such basic questions as “What items are the winners and losers?” and “How often does inventory turn over?” Don’t make this mistake. Management education expert Ashok Rao believes that companies can increase their profitability 20 to 50 percent or more through careful inventory management.

TIP

Inventory control doesn’t just mean counting. Take physical control of your inventory, too. Lock it up or restrict access. Remember that inventory is money.
Inventory Control

There is more to inventory control than simply buying new products. You have to know what to buy, when to buy it and how much to buy. You also need to track your inventory—whether manually or by computer—and use that knowledge to hone your purchasing process.

Startup entrepreneurs are at a disadvantage when it comes to inventory control, says Rao. “They may not have the right kinds of systems to manage their inventory. They don’t have the right kinds of skills for handling inventory. They don’t know how to go about actually maintaining their inventory, and they sometimes have to purchase in larger quantities than what they want or need.”

Maintaining Enough Inventory

Your business’s basic stock should provide a reasonable assortment of products and should be big enough to cover the normal sales demands of your business. Since you won’t have actual sales and stocking figures from previous years to guide you during startup, you must project your first year’s sales based on your business plan.

When calculating basic stock, you must also factor in lead time—the length of time between reordering and receiving a product. For instance, if your lead time is four weeks and a particular product line sells 10 units a week, then you must reorder before the basic inventory level falls below 40 units. If you do not reorder until you actually need the stock, you’ll have to wait four weeks without the product.

Insufficient inventory means lost sales and costly, time-consuming back orders. Running out of raw materials or parts that are crucial to your production process means increased operating costs, too. Your employees will be getting paid to sit around because there’s no work for them to do; when the inventory does come in, they’ll be paid for working overtime to make up for
lost production time. In some situations, you could even end up buying emergency inventory at high prices.

One way to protect yourself from such shortfalls is by building a safety margin into basic inventory figures. To figure out the right safety margin for your business, try to think of all the outside factors that could contribute to delays, such as suppliers who tend to be late or goods being shipped from overseas. Once you have been in business a while, you’ll have a better feel for delivery times and will find it fairly easy to calculate your safety margin.

**Avoiding Excess Inventory**

Avoiding excess inventory is especially important for owners of companies with seasonal product lines, such as clothing, home accessories,
and holiday and gift items. These products have a short “shelf life” and are hard to sell once they are no longer in fashion. Entrepreneurs who sell more timeless products, such as plumbing equipment, office supplies or auto products, have more leeway because it takes longer for these items to become obsolete.

No matter what your business, however, excess inventory should be avoided. It costs money in extra overhead, debt service on loans to purchase the excess inventory, additional personal property tax on unsold inventory and increased insurance costs. One merchandise consultant estimates that it costs the average retailer from 20 to 30 percent of the original inventory investment just to maintain it. Buying excess inventory also reduces your liquidity—something to be avoided. Consider the example of an auto supply retailer who finds himself with the opportunity to buy 1,000 gallons of antifreeze at a huge discount. If he buys the antifreeze and it turns out to be a mild winter, he’ll be sitting on 1,000 gallons of antifreeze. Even though he knows he can sell the antifreeze during the next cold winter, it’s still taking up space in his warehouse for an entire year—space that could be devoted to more profitable products.

When you find yourself with excess inventory, your natural reaction will probably be to reduce the price and sell it quickly. Although this solves the overstocking problem, it also reduces your return on investment. All your financial projections assume that you will receive the full price for your goods. If you slash your prices by 15 to 25 percent just to get rid of the excess inventory, you’re losing money you had counted on in your business plan.

Some novice entrepreneurs react to excess inventory by being overly cautious the next time they order stock. However, this puts you
at risk of having an inventory shortage. To avoid accumulating excess inventory, set a realistic safety margin and order only what you’re sure you can sell.

**Inventory and Cash Flow**

Cash-flow problems are some of the most common difficulties small businesses encounter, and they are usually the first signs of serious financial trouble ahead. According to management education expert Ashok Rao, tying up money in inventory can severely damage a small company’s cash flow.

To control inventory effectively, prioritize your inventory needs. It might seem at first glance that the most expensive items in your inventory should receive the most attention. But in reality, less expensive items with higher turnover ratios have a greater effect on your business than more costly items. If you focus only on the high-dollar-value items, you run the risk of running out of the lower-priced products that contribute more to your bottom line.

Divide materials into groups A, B and C, depending on the dollar impact they have on the company (not their actual price). You can then stock more of the vital A items while keeping the B and C items at more manageable levels. This is known as the ABC approach.

Oftentimes, as much as 80 percent of a company’s revenues come from only 20 percent of the products. Companies that respect this “80-20 rule” concentrate their efforts on that key 20 percent of items. Most experts agree that it’s a mistake to manage all products in the same manner.

Once you understand which items are most important, you’ll be able to balance needs with costs, carrying only as much as you need of a given item. It’s also a good idea to lower your inventory holding levels, keeping smaller quantities of an item in inventory for a short time.
rather than keeping large amounts for a long time. Consider ordering fewer items but doing so more often.

**Tracking Inventory**

A good inventory tracking system will tell you what merchandise is in stock, what is on order, when it will arrive and what you’ve sold. With such a system, you can plan purchases intelligently and quickly recognize the fast-moving items you need to reorder and the slow-moving items you should mark down or specially promote.

You can create your own inventory tracking system or ask your accountant to set one up for you. Systems vary according to the amount of inventory displayed, the amount of backup stock required, the diversity of merchandise and the number of items that are routinely reordered compared to new items or one-time purchases.

Some retailers track inventory using a manual tag system, which can be updated daily, weekly or even monthly. In a *manual tag system*, you remove price tags from the product at the point of purchase. You then cross-check the tags against physical inventory to figure out what you have sold.

For example, a shoe-store retailer could use the tag system to produce a monthly chart showing sales according to product line, brand name and style. At the top of the chart, he would list the various product lines (pumps, sneakers, loafers), and down the left margin, the various brand names and different styles. At the intersecting spaces down the column, he would mark how many of each brand were sold, in what style and color, whether the shoes were on sale or discounted, and any other relevant information.

*Dollar-control systems* show the cost and gross profit margin on individual inventory items. A basic method of dollar control begins at the cash register, with sales receipts listing the product, quantity sold and price. You can compare sales receipts with delivery receipts to determine your gross profit margin on a given item. You can also use software programs to track inventory by type, cost, volume and profit.
few programs to investigate include inFlow (inflowinventory.com), AdvancePro (advanceware.net), and Inventory Traker for Manufacturing/Distribution (trakersystems.com). (For more on computerized inventory tracking, see the section on “Computerized Inventory Control” on page 290).

Radio frequency identification—or RFID—is largely the domain of big companies because of its cost, but small businesses should still keep an eye on this growing tech trend. Patrick J. Sweeney II, author of RFID for Dummies and president and CEO of RFID solutions firm ODIN Technologies, describes the technology as “bar codes on steroids.”

Small tags affixed to individual products or to pallets of merchandise absorb and reflect radio waves that can be read by an RFID scanner, revealing such helpful facts as when and where the product was manufactured, when it was shipped, price and other information. According to Sweeney, the applications for small businesses include asset and inventory tracking and management, loss prevention and even automated checkout.

“Rather than scanning one product at a time, you can scan a whole cartload without any human intervention,” says Sweeney. “Customers could simply walk [their carts] past an RFID scanner, and their total is read with a properly designed system.”

The price of RFID technology has fallen recently, from $50,000 for an entry-level solution to around $300,000 for an initial pilot system—and Sweeney anticipates that the prices will drop further. Large retailers like Target and Walmart, and even government agencies like the Department of Defense, require RFID-tagged merchandise from their suppliers, so it’s definitely technology worth considering.
*Unit-control systems* use methods ranging from eyeballing shelves to using sophisticated bin tickets—tiny cards kept with each type of product that list a stock number, a description, maximum and minimum quantities stocked, cost (in code), selling price and any other information you want to include. Bin tickets correspond to office file cards that list a stock number, selling price, cost, number of items to a case, supply source and alternative source, order dates, quantities and delivery time.

Retailers make physical inventory checks daily, weekly or as often as is practical—once a year at the minimum. Sometimes an owner will assign each employee responsibility for keeping track of a group of items or, if the store is large enough, hire stock personnel to organize and count stock.

**Computerized Inventory Control**

While manual methods may have their place, most entrepreneurs these days find that computerizing gives them a far wider range of information with far less effort. Inventory software programs now on the market let you track usage, monitor changes in unit dollar costs, calculate when you need to reorder, and analyze inventory levels on an item-by-item basis. You can even expand your earlier ABC analysis to include the profit margin per item.

In fact, many experts say that current computer programs are changing the rules of ABC analysis. By speeding up the process of inventory control, computers allow you to devote more time to your A products to further increase your profitability. You can even control inventory right at the cash register with point-of-sale (POS) software systems. POS software records each sale when it happens, so your inventory records are always up-to-date. Better still, you get much more information about the sale than you could gather with a manual system. By running reports based on this information, you can make better decisions about ordering and merchandising.

With a POS system:
You can analyze sales data, figure out how well all the items on your shelves sell, and adjust purchasing levels accordingly.

You can maintain a sales history to help adjust your buying decisions for seasonal purchasing trends.

You can improve pricing accuracy by integrating bar-code scanners and credit card authorization ability with the POS system.

There are plenty of popular POS software systems that enable you to use add-on devices at your checkout stations, including electronic cash drawers, bar-code scanners, credit card readers, and receipt or invoice printers. POS packages frequently come with integrated accounting modules, including general ledger, accounts receivable, accounts payable, purchasing, and inventory control systems. In essence, a POS system is an all-in-one way to keep track of your business’s cash flow.

Features to consider in a POS system include the following:

- **Ease of use.** Look for software with a user-friendly graphical interface.
- **Entry of sales information.** Most systems allow you to enter inventory codes either manually or automatically via a bar-code scanner. Once the inventory code is entered, the systems call up the standard or sales price, compute the price at multiple quantities and provide a running total. Many systems make it easy to enter sales manually when needed by letting you search for inventory codes based on a partial merchandise number, description, manufacturing code or vendor.
- **Pricing.** POS systems generally offer a variety of ways to keep track of pricing, including add-on amounts, percentage of cost,
margin percentage and custom formulas. For example, if you provide volume discounts, you can set up multiple prices for each item.

■ Updating product information. Once a sale is entered, these systems automatically update inventory and accounts receivable records.

■ Sales tracking options. Different businesses get paid in different ways. For example, repair or service shops often keep invoices open until the work is completed, so they need a system that allows

“The definition of salesmanship is the gentle art of letting the customer have it your way.”

—RAY KROC, FOUNDER OF MCDONALD’S CORP.

WATCH OUT! As an entrepreneur, you’re a potential target for one of the most common—and potentially most costly—business scams: telemarketing con artists selling overpriced, poor-quality office supplies. Here are some tips to protect your business:

■ The FTC requires telemarketers to disclose that it’s a sales call, who they are and the total cost of what they are selling—so don’t be afraid to ask.

■ Make sure your employees are scam-aware, and establish a procedure for handling such calls.

■ Keep track of all orders, and limit the number of staff who are allowed to order.

■ If you receive merchandise you didn’t order—and the seller cannot prove you did—you can keep the materials and are not obligated to pay.
them to put sales on hold. If you sell expensive goods and allow installment purchases, you might appreciate a loan calculator that tabulates monthly payments. And if you offer rent-to-own items, you’ll want a system that can handle rentals as well as sales.

- **Security.** In retail, it’s important to keep tight control over cash receipts to prevent theft. Most of these systems provide audit trails so you can trace any problems.

- **Taxes.** Many POS systems can support numerous tax rates—useful if you run a mail order or online business and need to deal with taxes for more than one state.

Perhaps the most valuable way POS systems help you gain better control of your business is through their reporting features. You can slice and dice sales data in a variety of ways to determine what products are selling best at what time and to figure out everything from the optimal ways to arrange shelves and displays to what promotions are working best and when to change seasonal promotions.

Reporting capabilities available in POS programs include sales, costs, and profits by individual inventory items, by salesperson, or by category for the day, month and year to date. Special reports can include sales for each hour of the day for any time period. You can also create multiple formats for invoices, accounting statements and price tags. Additional reports include day-end cash reconciliation work sheets and inventory management. Examine a variety of POS packages to see which comes closest to meeting your needs.
Every business is unique; you may find that none of the off-the-shelf systems meets your requirements. Industry-specific POS packages are available—for auto repair shops, beauty and nail salons, video rental stores, dry cleaners and more. In addition, some POS system manufacturers will tailor their software to your needs.

**Inventory Turnover**

When you have replaced 100 percent of your original inventory, you have “turned over” your inventory. If you have, on the average, a 12-week supply of inventory and turn it over four times a year, the count cycle plus the order cycle plus the delivery cycle add up to your needs period. Expressed as an equation, it would read:

\[
\text{Count Cycle} + \text{Order Cycle} + \text{Delivery Cycle} = \text{Needs Period}
\]

For instance, suppose you decided to count inventory once every four weeks (the count cycle). Processing paperwork and placing orders with your vendors take two weeks (the order cycle). The order takes six weeks to get to you (delivery cycle). Therefore, you need 12 weeks’ worth of inventory from the first day of the count cycle to stay in operation until your merchandise arrives.

You can improve your inventory turnover if you count inventory more often—every two weeks instead of every four—and work with your suppliers to improve delivery efficiency. Alternate ways of distributing goods to the store could cut the delivery cycle down to three weeks, which would cut inventory needs to six weeks. As a result, inventory turnover could increase from four times a year to eight times.

Another way to look at turnover is by measuring sales per square foot. Taking the average retail value of inventory and dividing it by the number of square feet devoted to a particular product will give you your average sales per square foot.

You should know how many sales per square foot per year you need to survive. Calculate your sales per square foot once a month to make sure they are in line with your expectations.
Inventory Accounting

If you spend a few minutes considering inventory, how you account for that inventory, and the taxes you must pay on it, you’ll never again question the need for an accountant. However, it’s important for every

For decades, conventional wisdom warned that depending on a sole supplier could sink your business. After all, such a situation could spell doom if there were any interruption in your supply of products.

However, there are some situations where relying on a sole supplier makes sense. For example, if you’re a specialty clothing retailer and most of your sales come from a certain product line, you may find yourself with a sole supplier. In some cases, there is only one supplier who can deliver the raw materials you need to make a product. In other cases, a company strikes an agreement with a sole supplier in return for special pricing deals.

The key to making a sole supplier relationship work is to make sure all the right safeguards are in place. Protect yourself by asking suppliers about backup product sources. Find out how many manufacturing plants and distribution centers exist in their product pipeline. Ask what contingency plans they have to supply you in case of emergency. What are their obligations to you in the event of a shortage? Will their top one or two customers get all the products they need, while your business has to wait in line?

Keep up-to-date on alternative supply sources that could help your business survive temporary shutdowns from your sole supplier. Use your trade association directory and industry networking contacts to help expand your supplier pipeline. Above all, make sure you feel comfortable entering into a sole supplier relationship before you sign on the dotted line.
entrepreneur to have a basic understanding of inventory accounting, even if you rely on your accountant to do the actual numbers. There are two methods used for inventory valuation:

The *last in, first out* (LIFO) method assumes that you will sell the most recently purchased inventory first. For instance, suppose you bought ten ceiling fans a year ago at $30 each. A week ago, you purchased a second lot of ten ceiling fans, but now the price has gone up to $50 each. By using the LIFO method, you sell your customers the $50 ceiling fans first, which allows you to keep the less expensive units (in terms of your inventory cost) in inventory. Then, when you have to calculate inventory value for tax purposes, LIFO allows you to value your remaining inventory (the $30 fans) at substantially less than the $50 fans, so you pay less in taxes.

*First in, first out* (FIFO) was the traditional method used by most businesses before inflation became common. Under FIFO, the goods you receive first are the goods you sell first. Under this method, you value inventory at its most recent price. FIFO is usually used during periods of relatively low inflation since high inflation and increasing replacement costs tend to skew inventory accounting figures.

LIFO establishes the value of your inventory based on the most recent quantity received, while FIFO establishes the value of your inventory based on the oldest item in it. You can use either dollar control or unit control with these methods. Match your system to your needs, based on your accountant’s recommendations.

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A letter of credit from a major customer can be used as a form of security in establishing relationships with suppliers. For instance, if you’re starting a business manufacturing garden hoses, you could get a letter of credit from your biggest customer when the order is placed, showing that the customer has contracted to buy the finished hoses. The material to make the hoses is then purchased using the letter of credit as security . . . and you don’t have to put up a penny.

**AHA!**
**Buying Inventory**

Your inventory control system will tell you when to buy replacement inventory, what to buy (and what not to buy), and how much to buy.

The *open-to-buy* is the amount budgeted for inventory purchases for a given period—usually one, three or four months. Since you are a startup without past performance to guide you, you must calculate the open-to-buy by determining the gross sales you need to pay store overhead and cover your other costs.

Your business plan should give you an idea of the basic stock levels and monthly or seasonal sales volume you need to have during startup. After your business has been up and running for several months to a year, your inventory control system will provide this information.

Figure out your open-to-buy using the following formula:

\[
\text{planned inventory} + \text{plus planned sales} = \text{equals} - \text{less actual inventory} - \text{less stock on order} = \text{open-to-buy}
\]

\[
\begin{align*}
\text{planned inventory} & \quad $25,000 \\
\text{plus planned sales} & \quad +$25,000 \\
\text{equals} & \quad $50,000 \\
\text{less actual inventory} & \quad -$27,000 \\
\text{less stock on order} & \quad -$13,000 \\
\text{equals open-to-buy} & \quad $10,000
\end{align*}
\]

Most seasonal retailers calculate their open-to-buy seasonally to accommodate variations in the type of merchandise they sell and seasonal sales fluctuations. Instead of figuring open-to-buy in dollars, some retailers approach trade shows and other merchandise sources
with a list of what they need to fill out their inventories and meet sales projections. But whether they work with dollars or by unit, experienced retailers recommend that the owner of a seasonal business should feel free to go beyond the budget or use less than the entire open-to-buy amount. In fact, you should leave room for unanticipated items.

**Suppliers**

Suppliers are essential to any retail business. Depending on your inventory selection, you may need a few or dozens of suppliers. Sometimes suppliers will contact you through their sales representatives, but more often, particularly when you are starting out, you will need to locate them yourself—either at trade shows, wholesale showrooms and conventions, or through buyers’ directories, industry contacts, the business-to-business Yellow Pages and trade journals, or websites. Suppliers can be divided into four general categories.

1. **Manufacturers.** Most retailers will buy through independent representatives or company salespeople who handle the wares of different companies. Prices from these sources are usually lowest, unless the retailer’s location makes shipping freight expensive.
2. **Distributors.** Also known as wholesalers, brokers or jobbers, distributors buy in quantity from several manufacturers and warehouse the goods for sale to retailers. Although their prices are higher than a manufacturer’s, they can supply retailers with small orders from a variety of manufacturers. (Some manufacturers refuse to fill small orders.) A lower freight bill and quick delivery time from a nearby distributor often compensate for the higher per-item cost.
3. **Independent craftspeople.** Exclusive distribution of unique creations is frequently offered by independent craftspeople, who sell through reps or at trade shows.
4. **Import sources.** Many retailers buy foreign goods from a domestic importer, who operates much like a domestic wholesaler. Or,
depending on your familiarity with overseas sources, you may want to travel abroad to buy goods.

**Dealing with Suppliers**

Reliability is the key factor to look for in suppliers. Good suppliers will steer you toward hot-selling items, increasing your sales. If you build a good relationship and your business is profitable for them, suppliers may be willing to bail you out when your customers make difficult demands. Remember, though, that suppliers are in business to make money. If you go to the mat with them on every bill, ask them to shave prices on everything they sell to you, or fail to pay your bills promptly, don’t be surprised when they stop calling.

As a new business owner, you can’t expect to receive the same kind of attention a long-standing customer gets right off the bat. Over time, however, you can develop excellent working relationships that will be profitable for both you and your suppliers. Once you have compiled a list of possible suppliers, ask for quotes or proposals, complete with prices, available discounts, delivery terms and other important factors. Do not just consider the terms; investigate the potential of your supplier’s financial condition, too. And ask them for customer references; call these customers and find out how well the supplier has performed. If there have been any problems, ask for details about how they were reconciled. Every relationship hits bumps now and then; the key is to know how the rough spots were handled. Was the supplier prompt and helpful in resolving the problem, or defensive and uncooperative?

Be open, courteous and firm with your suppliers, and they will respond in kind. Tell them what you need and when you need it. Have a specific understanding about the total cost, and expect delivery on

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*e-FYI*

Before you go to a trade show in search of inventory suppliers, do your homework. The Trade Show Learning Center (fastsigns.com/trade show-center.html) provides a wealth of information, sign design tips and checklists to help you prepare.
schedule. Keep in constant communication with your suppliers about possible delays, potential substitutions for materials or product lines, production quality, product improvements or new product introductions and potential savings.

Suppliers often establish a minimum order for merchandise, and this minimum may be higher for first orders to cover the cost of setting up a new store account. Some suppliers also demand a minimum number of items per order.

**Payment Plans**

While most service providers bill you automatically without requiring credit references, equipment and merchandise suppliers are more cautious. Since you are just getting started, you will not be able to give them trade references, and your bank probably will not give you a credit rating if your account has just opened.

If your supplier is small, the manner in which you present yourself is important in establishing credit. You may find the going tougher when dealing with a large supplier. A personal visit will accelerate your acceptance.

Present your financial statements and a description of your prospects for success in your new business. Don’t even think of inflating your financial statements to cover a lack of references. This is a felony and is easily detected by most credit managers.

Some suppliers will put you on a c.o.d. basis for a few months, knowing that if you are underfinanced, you will soon have problems with this payment method. Once you pass that test, they will issue you a line of credit. This creates a valid credit reference you can present to new suppliers until credit agencies accumulate enough data on your business to approve you for suppliers. Most
suppliers operate on a trade credit basis when dealing with other businesses. This basically means that when you’re billed for a product or service, you have a certain grace period before the payment is due (typically 30 days). During this time, the supplier will not charge interest.

Carefully consider all costs, discounts and allowances before deciding whether to buy an item. Always take into account what the final shelf cost of any item will be. The most common discounts are given for prompt payment; many suppliers also give discounts for payment in cash. When you can, make sure you specify on all orders how the goods are to be shipped so they will be sent in the least expensive way.

Occasionally, suppliers grant customers discounts for buying in quantity, usually as a freight allowance for a specific amount of merchandise purchased. Some suppliers pay an increasing percentage of the freight bill as the retailer’s orders increase; others simply cover the entire freight cost for purchases over a minimum amount.

If you order merchandise from distant suppliers, freight charges can equal more than 10 percent of your merchandise cost. Ask what a manufacturer’s or supplier’s freight policy is before ordering, and make sure the order is large enough to warrant the delivery charges. If the manufacturer does not pay freight on back orders, you might consider canceling a back order and adding it to the next regular shipment.

Become familiar with each of your suppliers’ order-filling priorities. Some suppliers fill orders on a first-in, first-out basis; others give priority to the larger orders while customers with smaller orders wait. Consequently, most retailers specify a cancellation date on their orders. In other words, any goods shipped after that date will be returned to the suppliers. By specifying a cutoff date, you
increase the chances that your orders will be shipped promptly and arrive in time.

Give careful attention to shipments when they arrive. Make sure you’ve received the correct amount and type of merchandise, and make sure the quality matches the samples you were shown.
Mail is one of the lifelines of your business, and, depending on your industry, it can also be one of your biggest costs. That’s why it’s so important to figure out the most efficient, convenient and economical ways to send mail. This chapter covers everything you need to know about mailing—from postage metering and sorting to letter-opening machines.

**Mailing Equipment**

There are many mailing machines that you can buy on the market that can help you save valuable time—so you can spend it on more important things, like growing your business.

The Click2Mail service offers a convenient way to create and send hard-copy mailings right from your PC. Simply place your order online at click2mail.com and have postcards, direct mail, fliers or greeting cards delivered directly to your customers’ doors.
Postage Meters

Having your own postage meter saves a small business time and money. No more licking and sticking envelopes and stamps. With today’s electronic mailing machines, you don’t even have to stand in line at the post office to get your meter reset.

Electronic postage meters consist of a base machine through which envelopes are guided for stamping, which can be rented, leased, or bought from a mailing equipment manufacturer. The machine also has a meter, which must be leased from a U.S. Postal Service-approved mailing equipment manufacturer such as Pitney Bowes; federal regulations prohibit the ownership of the actual meter, as that is strictly controlled by the U.S. Postal Service. The faster and more automated the machine, and the more features it incorporates, the more it costs to rent, lease or own.

The primary difference between bases is how letters are fed through the machines. The least costly are the manual models that require you to feed letters, one at a time, through a roller. More expensive models offer semiautomatic or fully automated letter feeding. Options for the base include stackers, which stack your mail, and sealers, which automatically wet and seal each envelope as it passes through the base.

Even the smallest office can benefit from a meter to determine exact postage and print out a stamp, and a scale to weigh mail. The U.S. Postal Service estimates accurate weighing can save customers up to 20 percent on mailings.

An efficient, automated mailing machine can also save hours of time if you handle direct mail or large mailings. Mail that’s presorted and bar-coded bypasses many of the post office handling steps and is delivered 24 hours sooner than mail lacking automated

If rising postage costs are putting the squeeze on your new business, try shrinking your mailings. Many direct-mail and catalog companies are saving by reducing their mailings’ dimensions. Keep your mailings within the size of the USPS’ letter classification of 6 by 11 inches, with thickness no more than one-fourth of an inch.
preparation, according to the USPS. (And if you don’t think a day makes a difference, consider the results of a study by market research firm The Gallup Organization and mailing equipment manufacturer Pitney Bowes: Their study found that 11 percent of executives surveyed at large and midsize companies said the net income of their businesses would jump 5 percent if they received payments one day sooner!)

The latest mailing systems are multifunctional, handling everything from printing, folding, stapling, inserting, sealing, labeling, weighing and stamping to sorting, stacking and putting on a wrapper or binder. Many interact with a computer so you can track exactly how, when and to whom orders are sent out. Some PC-based systems can be programmed to simultaneously handle different-sized paper—checks, invoices, brochures—without stopping the machine to reset the equipment.

The most popular mailing equipment combines meters with electronic scales; other machines have additional capabilities such as automatic feed and envelope-sealing. Speeds can vary from 15 to 270 envelopes per minute.

Besides faster delivery time and the ease of resetting by telephone or computer, metered mail machines offer other benefits:

■ Postal accounting. Tracking and controlling money spent on direct mail, letters, parcel post, Priority and Express Mail is easier. Because there is one dispenser with precise postage, accounting is streamlined, and you know exactly how much postage remains in the meter, which can hold up to $1,000 in postage.

■ Parcel post dating. If your third-class letters and packages are metered, the stamp date requires the post office to expedite those items on the date received, thereby providing better service on less expensive classes of mail.

■ Postmark ads. Postage meters not only print stamps on your mail, but they can print an advertising message, too. Postmark ads can include your company logo and name, giving your company extra advertising exposure.
Postal Scales

Besides postage meters, the second crucial piece of mailing equipment most businesses need is a postal scale. Scales are sold in 5-, 10-, 30-, 100-, 200- and 250-pound capacities and can be purchased as stand-alone units or combined with a postage meter. A postal scale ensures that you’re not paying more than you need to for your outgoing mail.

What to look for when buying? Both electronic and manual versions are available. Because manual scales require you to read the postage amount, they increase the chance of human error. Electronic scales are more expensive, but their digital readouts reduce errors and ensure you get the most value from your scale.

Depending on the type, size and weight of letters and packages you will be mailing, you may wish to look for a machine that lets you compare rates between various carriers, such as the USPS and FedEx. You may also want a feature that automatically converts a ZIP code to the proper zone for calculating zone-dependent rates for carriers such as UPS.

Consider ease of use, especially if a number of people will be using the scale. Some models have easy-to-read keypads and user prompts. Consider the size of the weighing platform and maximum weight the machine can handle to make sure it can accommodate the types of packages you’ll be sending. For shipments that exceed the scale's weighing capacity, look for a scale that will allow you to manually enter the weight for rate calculation.

If you need your scale to interface with a postage meter, you’ll want to be sure the model you choose is compatible with your metering equipment.

Questions to ask the dealer:

■ What adjustments will need to be made to the scale if postage rates change? What charges are involved?
Does the scale offer alternative pricing options based on various postal classifications?

Does the scale have a password feature to help guard against unauthorized use?

What are its size and weight limitations?

How should the machine be maintained?

What type of maintenance agreement is offered?

Does the scale offer rates for foreign mailings?

Does the scale offer rates for FedEx and UPS?

Letter-Folding Machines

When you are preparing for a promotional mailing, you may find yourself dealing with hundreds or thousands of letters or brochures. Folding letters yourself can be very time-consuming; it’s also unnecessary, thanks to today’s letter-folding machines.

When buying a letter-folding machine, consider the volume the machine is capable of processing. Low-end equipment processes a few hundred pieces per hour; high-end equipment is capable of operating at speeds from 1,500 to 18,000 sheets per hour. Also, consider the types of fold the equipment can provide. Some of the possibilities are c-fold (standard letter), z-fold (accordion fold), double fold, single fold, right-angle fold and brochure fold.

Sheets are fed either through a friction feeder or a vacuum feeder. Friction feeders have a rubber wheel that pulls the sheets through; frequent use can cause this kind of feeder to wear out. Friction feeders can also smudge a newly printed document. Vacuum (or air suction) feeders, while sturdier and more effective for handling glossy, coated papers, can be substantially more expensive and are only available on high-volume letter-folding machines.

You may also want to buy a model that includes a batch counter or a total counter. Batch counters keep the machine from folding too many sheets together. Total counters tell you how many sheets have already been folded. You’ll find a memory setting useful if you typically produce the same types of jobs on a regular basis. The memory setting
Looking for ways to prune postal bloat? The Direct Marketing Association offers this checklist of cost-cutting ideas:

1. Fine-tune your mailing list.
   - Stop mailing to duplicate names.
   - Eliminate nonresponders and marginal prospects. There are many mailing list software programs that can help you keep your mailing lists current.

2. Be sure you’re using accurate addresses.
   - Check for correct ZIP codes, especially when using addresses supplied by customers.
   - Watch for mail shipped to wrong suite or apartment numbers.
   - Check for missing directionals, such as “N.” for “North.”

3. Take advantage of postal discounts and services.
   - Use the USPS’ National Change of Address list to keep your mailing list current.
   - Print “Address Correction Requested” on the face of your mail. The Postal Service will tell you if the recipient files a change of address.
   - Investigate commingling your mail with that of other small mailers to take advantage of discounts available to large mailers. Contact your local mailing service for more information.
   - Print your bar-coded ZIP+4 on business reply mail. The Postal Service charges much less for cards using the nine-digit ZIPs.
   - Stockpile mail to build up larger volumes.
allows you to enter the instructions for processing a particular type of job once, then call up that job whenever you need to apply the same parameters.

You should also check to see how the equipment handles paper jams. Better-designed machines can release rollers, giving you easier access to the problem area. Finally, you may want to consider a model with an inserter, which automatically inserts your documents into envelopes.

Questions to ask the dealer:

- How many pieces can it process per hour?
- Does the machine offer friction or vacuum feed?
- What types of folds is the machine capable of?
- How many sheets can it fold at once?
- How effective is it at handling stapled sheets? (Many cannot handle this automatically and will require hand feeding.)
- What counter features are available?
- What types and sizes of paper can it handle?
- How should the machine be maintained?
- What type of maintenance agreement is offered?
- Does it have an automatic feeder?
- Does it have a memory setting?
- How are paper jams handled?

***Letter-Opening Machines***

Letter-opening machines can greatly speed up the opening of mail. Some can process up to 600 envelopes per minute.

What to look for when buying? There are two types of letter openers: chadders and slitters. Chadders open envelopes by cutting one-eighth of an inch from the end. Slitters, while quite a bit more expensive than chadders, cut through the top seam of the envelope and reduce the risk of damaging the contents.
Most models can handle standard #10 envelopes. More expensive models will accommodate different sizes and thicknesses of incoming mail. An automated feeder will send your mail through the machine; joggers will help settle the contents of the envelope so they don’t get cut; counters let you count the number of pieces being processed.

Another feature you may find helpful is an automatic date-and-time stamp to help you keep track of when mail arrives. Because letter openers are usually quite reliable, maintenance contracts are usually not required.

Questions to ask the dealer:

- Does the opener use a chadder or a slitter?
- What sizes of envelopes can the machine handle?
- Does it have an automatic feeder? A jogger? A counter?
- Can incoming mail be time- and date-stamped?

**Mail Tabbers and Labelers**

Mail tabbers are an economical and time-saving alternative for mass mailings, such as newsletters and brochures. Instead of inserting the pages inside an envelope, which then needs to be sealed, a tabber places a small adhesive tab (or wafer seal) on folded sheets of paper to securely hold them shut. An affordably priced ($3,000) mail-tabbing machine can affix one tab at speeds up to 12,500 pieces per hour, depending on the model. Tabbers are usually USPS compliant, which is helpful for postage bulk discounts and can be desktop or stand-alone floor models. They can also be used in combination with mail labelers, saving yet another step in the mailing process.

Mail labelers quickly affix mailing labels with the use of a hand-held dispenser, desktop model or heavy-duty floor model, depending on the need for speed and the use
of other attachments, such as a tabber, folder or inserter. They can attach labels to many different types of mail pieces, including postcards, envelopes, catalogs, brochures, sales fliers and other marketing pieces. Additional features may include the option to use folded label sheets (approximately 30 labels per page) or continuous-feed single label rolls, counters and different label sizes. If attaching labels using a hand dispenser, the speed will depend on the individual using the device; however, automated labelers can stick on as many as 15,000 labels an hour.

**Lease or Buy?**

Most of the mailing equipment in this chapter can be rented, leased or purchased outright. You may prefer to lease to conserve working capital, then upgrade equipment as your business grows. Renting is the easiest method, because if you need to cut costs at any time, you simply hand the equipment back and walk away. If you are leasing, you are obligated to make all the payments specified in the lease. However, leasing offers advantages, including lower rates than renting and the ability to roll the lease over for upgraded equipment.

If a mailing equipment salesperson sells you on leased equipment that ends up being too sophisticated for your needs, some suppliers will purchase the competitor’s lease and give you their own equipment. When shopping around for equipment, ask if there are any special promotions available before you sign.

Basic machines lease from about $25 to $35 per month, more sophisticated machines for $60 and up. Anything more expensive
than that is usually best suited to large corporations. The average lease is for three to five years and can include maintenance and free postage refills; the average rental agreement is for one year.

Sick of standing in line at the post office? Visit the post office online instead. At the USPS’ website (usps.com), you’ll find dozens of time- and money-saving services, including the popular Shipping Assistant software that can be downloaded to your computer. This easy-to-use desktop application puts all the USPS online tools at your fingertips so you can quickly access shipping information, including rate calculations and delivery information, as well as print out shipping labels (with or without postage) and create an online address book.

Click on the ZIP codes icon from the home page, and you can look up ZIP codes for addresses nationwide. Or keep tabs on packages by using the site’s Track & Confirm feature.

There’s also a “rate calculator” that helps you find the most cost-effective method of mailing letters and packages. Just enter the article’s weight plus ZIP codes of the origin and destination, and up pops the price for shipping it by various methods.

Want shipping supplies sent to your door? Click on “Business Center,” then “Order Supplies” to order Express or Priority Mail envelopes, labels, boxes and tags after registering your business information.

Print online postage by going to USPS Click-n-Ship, or use another authorized provider, such as Stamps.com or Endicia.com. You can even order stamps at usps.com with your credit card (a shipping and handling charge applies). Click “Buy Stamps & Shop” to reach the Postal Store.
Carefully read the contracts you are offered, and, if renting, make sure there is no mention of the word “lease.” Also, always ask what options you have if you need to get out of a lease.

Make sure the company is postal-certified with the USPS. Salespeople should be knowledgeable about their industry and about the latest USPS regulations and rates. They should also ask you questions about your mailing process—how many boxes, how frequently you ship—so the equipment they recommend fits both your business and budget.

When shopping for mailing equipment, allow the salespeople enough time to make their pitch. The right mailing equipment can save you money, but only if you give the salesperson enough time to analyze your needs.
Getting paid for your products or services is what business is all about. These days, there are more options than ever for accepting payment. Whether you are in a B2B or consumer-oriented industry, your choices can include extending credit, taking checks, and accepting credit or debit cards.

With so many options, it’s easy for a new business owner to get caught up in the excitement of making sales and to forget the necessity of a well-thought-out credit policy. Deciding what forms of payment you will accept, how you will handle them and what collection methods you’ll use to ensure debts are paid is essential to any small business’ success.

Establishing a Credit Policy

Credit can make or break a small business. A too-lenient credit policy can set the stage for collection and
cash-flow problems later, while a creatively and carefully designed policy can attract customers and boost your business’s cash flow.

Many small businesses are reluctant to establish a firm credit policy for fear of losing their customers. What they do not realize is that a consistent credit policy not only strengthens your company, but also creates a more professional image in your customers’ eyes.

A well-thought-out credit policy accomplishes four things:

1. Avoids both bad debts and hard feelings
2. Standardizes credit procedures, providing employees with clear and consistent directions
3. Demonstrates to employees and customers that the company is serious about managing credit
4. Helps the business owner define how credit fits into the overall sales and marketing plan

To establish a smart credit policy, start by investigating the way your competition handles credit. Your goal is to make it easy to buy your products. If your competition offers better terms, they have an advantage. You must meet your competitors’ credit terms to attract customers.

At the same time, be cautious not to go too far with your credit policy. Novice entrepreneurs are often tempted to offer lower prices and longer payment terms to take business away from competitors. Credit is a double-edged sword. You want to attract customers with your credit policy, but you do not want to attract customers who are not credit-worthy. Be aware that some troubled companies routinely

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**WARNING**

Even the best customers can suddenly become deadbeats. Watch for these warning signs that a customer may be in financial trouble:

- Changes in personnel, especially buyers or management
- Changes in buying patterns, such as purchasing much larger amounts than usual or buying significant amounts off-season
- Failure to return calls with the usual promptness

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switch from supplier to supplier whenever they reach their credit limit with one. Others are outright con artists that take advantage of new and naive entrepreneurs.

How to protect yourself? One good way to start is to write a short, simple statement that sums up the intent and spirit of your company’s credit policy. For example, a liberal policy might read: “Our credit policy is to make every reasonable effort to extend credit to all customers recommended by sales management, provided a suitable credit basis can be developed.”

A conservative policy might say: “Our company has a strict credit policy, and credit lines will be extended only to the most credit-worthy accounts. New customers who fail to meet our credit criteria will need to purchase using cash-on-delivery terms until they establish their ability and willingness to pay on our terms.”

Base your policy selection—conservative or liberal—on your industry, the size and experience of your staff, the dollar amount of your transactions, your profit margins and your tolerance for risk. Also consider the industry to which you’re selling. If your customers are in “soft” industries such as construction or computers, for example, you would do well to use a conservative policy.

If you adopt a liberal credit policy for your business, make sure you are prepared to handle the collection calls. Liberal policies will require you to be aggressive when customers do not pay on time.

**Give ’Em Credit**

The simplest customer credit policy has two basic points: 1) limiting credit risk and 2) diligently investigating each company’s credit-worthiness.
No matter how credit-worthy a customer is, never extend credit beyond your profit margin. This policy ensures that if you aren’t paid, at least your expenses will be paid. For example, if you mark up your product or service 100 percent, you can then safely risk that amount without jeopardizing your company’s cash flow. To gauge a company’s credit-worthiness, draft a comprehensive credit application that contains the following:

- Name of business, address, phone and fax number
- Names, addresses and Social Security numbers of principals
- Type of business (corporation, partnership, sole proprietorship)
- Industry
- Number of employees
- Bank references
- Trade payment references
- Business/personal bankruptcy history
- Any other names under which the company does business
- A personal guarantee that the business owners promise to pay you if their corporation is unable to

Your credit application should also specify what your credit terms are and the consequences of failing to meet them. Indicate what late fees you’ll charge, if any; that the customer is responsible for any attorney’s fees or collection costs incurred at any time, either during or prior to a lawsuit; and the venue where such a suit would be filed. Have your credit application form reviewed by an attorney specializing in creditors’ rights to make sure it is in line with your state’s regulations.

Once a potential customer has completed the application, how do you investigate the information? One way to verify the facts and assess the company’s credit history is to call credit-reporting agencies. Some companies’ payment histories will also be available through D&B. Because credit agencies’ reporting can be unreliable, however, it’s also a good idea to call others in the industry and try to determine the company’s payment record and reputation. Most industries have associations that trade credit information.
Also ask customers how much credit they think they will need. This will help you estimate the volume of credit and the potential risk to your business. Finally, simply use your intuition. If someone doesn’t look you straight in the eye, chances are they won’t let you see what’s in their wallet, either.

**Payment Due**

Once you’ve set your credit policy, it’s important to stick to it and do your part to ensure prompt payment. The cornerstone of collecting accounts receivable on time is making sure invoices go out promptly and accurately. If you sell a product, get the invoice out to the customer at the same time the shipment goes out. If you’re in a service industry, track your billable hours daily or weekly, and bill as often as your contract or agreement with the client permits. The sooner the invoice is in the mail, the sooner you get paid.

To eliminate any possibility of confusion, your invoice should contain several key pieces of information. First, make sure you date it accurately and clearly state when payment is due, as well as any penalties for late payment. Also specify any discounts, such as discounts for payment in 15 days or for payment in cash.

Each invoice should give a clear and accurate description of the goods or services the customer received. Inventory code numbers may make sense to your computer system, but they don’t mean much to the customer unless they are accompanied by an item description.

It’s also important to use sequentially numbered invoices. This helps make things easier when you need to discuss a particular invoice with a customer and also makes it easier for your employees to keep track of invoices.
Before sending out an invoice, call the customer to ensure the price is correct, and check to make sure prices on invoices match those on purchase orders and/or contracts.

Know the industry norms when setting your payment schedules. While 30 days is the norm in most industries, in others, 45- or 60-day payment cycles are typical. Learn your customers’ payment practices, too. If they pay only once a month, for instance, make sure your invoice gets to them in plenty of time to hit that payment cycle. Also keep on top of industry trends and economic ups and downs that could affect customers’ ability to pay.

“The thing women have got to learn is that nobody gives you power. You just take it.”
—ROSEANNE BARR

COLLECT CALL

Having trouble collecting on a bill? Your Better Business Bureau (BBB) may be able to help. Many BBBs now assist with B2B disputes regarding payment as part of their dispute resolution service. BBBs do not operate as collection agencies, and there is no charge beyond standard membership dues.

When the BBB gets involved, there can be three possible outcomes. First, the account may be paid; second, the BBB can serve as a forum for arbitration; third, if the company refuses to pay or arbitrate, the complaint is logged in the BBB’s files for three years.

Most businesses find a call from the BBB a powerful motivator to pay up. If the debtor belongs to the BBB and refuses to pay, its membership could be revoked.

To find out if the BBB in your area offers this service, visit bbb.org.
Promptness is key not only in sending out invoices, but also in following up. If payment is due in 30 days, don’t wait until the 60th day to call the customer. By the same token, however, don’t be overeager and call on the 31st day. Being too demanding can annoy customers, and this could result in you losing a valuable client. Knowledge of industry norms plus your customers’ payment cycles will guide you in striking a middle ground.

Constant communication trains customers to pay bills promptly and leads to an efficient, professional relationship between you and them. Usually, a polite telephone call to ask about a late payment will get the ball rolling, or at least tell you when you can expect payment. If any problems exist that need to be resolved before payment can be issued, your phone call will let you know what they are so you can start clearing them up. It could be something as simple as a missing packing slip or as major as a damaged shipment.

The first 15 to 20 seconds of the call are crucial. Make sure to project good body language over the phone. Be professional and firm, not wimpy. Use a pleasant voice that conveys authority, and respect the other person’s dignity. Remember the old saying “You catch more flies with honey than with vinegar”? It’s true.

What if payment still is not made after an initial phone call? Don’t let things slide. Statistics show that the longer a debt goes unpaid, the more difficult it will be to collect and the greater chance that it will remain unpaid forever. Most experts recommend making additional phone calls rather than sending a series of past-due notices or collection letters. Letters are easier to ignore, while phone calls tend to get better results.

If several phone calls fail to generate any response, a personal visit may be in order. Try to set up an appointment in advance. If this isn’t possible, leave a message stating what date and time you will visit.
Make sure to bring all the proper documentation with you so you can prove exactly what is owed. At this point, you are unlikely to get full payment, so see if you can get the customer to commit to a payment plan. Make sure, however, that you put it in writing.

If the customer refuses to meet with you to discuss the issue or won’t commit to a payment plan, you may be facing a bad debt situation and need to take further action. There are two options: using the services of an attorney or employing a collection agency. Your lawyer can advise you on what is best to do.

If you decide to go with a collection agency, ask friends or business owners for referrals, or look in the Yellow Pages or online to find collectors who handle your type of claim. To make sure the agencies are reputable, contact the Better Business Bureau or the securities division of your secretary of state’s office. Since all collection companies must be bonded with the state, this office should have them on file.

For more information on collection agencies, you can also contact the Association of Credit and Collection Professionals (acainternational.org). Most reputable collection firms are members of this international organization.

Many collection agencies take their fee as a cut of the collected money, so there is no upfront cost to you. Shop around to find an agency with a reasonable rate. Also compare the cost of using a collection agency to the cost of using your lawyer. You may be able to recover more of the money using one option or the other, depending on the total amount of the debt and the hourly rate or percentage the lawyer or agency charges.

**Accepting Checks**

Bounced checks can cut heavily into a small business’s profits. Yet a business that doesn’t accept personal checks can’t expect to stay
competitive. How can you keep bad checks out of your cash register? Here are some steps to establishing a check-acceptance policy that works.

■ *Start with the basics.* Since laws regarding the information needed to cash checks vary greatly among states (and even within states), begin by contacting your local police department. They can familiarize you with the laws and regulations that govern checks in your state. Some police departments have seminars instructing businesses on how to set up proper check-cashing policies.

While rules vary among states, there are some good general rules of thumb to follow. When accepting a check, always ask to see the customer’s driver’s license or similar identification card, preferably one that has a photograph. Check the customer’s physical characteristics against his identification. If you have reason to question his identity, ask the customer to write his signature on a separate piece of paper. Many people who pass bad checks have numerous false identifications and may forget which one they are using. Ask for the customer’s home and work telephone numbers so you can contact him in case the check bounces. Don’t cash payroll checks, checks for more than the amount of purchase or third-party checks.

■ *Be observant.* Desktop-publishing software, laser printers and scanners have made it easier for people to alter, forge and duplicate checks. To avoid accepting a forged or counterfeit check, evaluate the document very carefully. Smudge marks on the check could indicate the check was rubbed with moist fingers when it was illegally made. Smooth edges on checks are another sign of a document that may be counterfeit; authentic checks are perforated either on the top or left side of the check. Smudged handwriting or signs that the handwriting has been erased are other warning signs that you might be dealing with an illegal check.
Be especially cautious with new checks. A large majority of bad checks are written on new accounts. Many businesses will not accept checks that don’t have a customer’s name preprinted on them. If the check is written on a brand-new account (one with a check number, say, below 300), protect yourself by asking to see two forms of ID.

Establish a waiting period for refunds. Merchants can easily be stiffed when a customer makes a purchase by check and returns the merchandise the next day for a cash refund. When the check bounces, the merchant is out the cash paid for the refund. To avoid this scenario, many entrepreneurs require a five-to-seven-business-day grace period to allow checks to clear the bank before cash refunds are paid.

Consider getting electronic help. If you process a large volume of checks, you might benefit from the services of a check-verification company. By paying a monthly fee, which depends on your company’s size and volume of checks, you can tap into a company’s database of individuals who write bad, stolen or forged checks. This is done by passing a customer’s check through an electronic “check reader” at your checkout stand. If the check matches a name in the company’s database, the check is refused.

Using a “check reader” from companies like TeleCheck, a check-verification and check-guarantee company, is quick and efficient. They can approve a check within seconds, which is generally as fast as, or faster than, a merchant getting acceptance for a credit card purchase.

Check-verification companies also offer a check-guarantee service. If a check is approved by a check-verification company and it later turns out to be a bad check, the merchant gets reimbursed for the value of
the check. This guarantee service reduces the risk of accepting bad checks. Getting a handle on the bad checks that might pass through your business certainly has its benefits. For small merchants, one bad check can wipe out an entire day’s profits.

Another option is an electronic check conversion/acceptance system, which allows merchants to accept checks as easily and safely as credit cards. Here’s how it works: When a customer makes a payment with a check, the paper check is run through a check reader, converting it into an electronic item much like the credit card terminal does when swiping a card. Once the transaction is approved, funds are electronically debited from the customer’s account and deposited into the merchant’s account, usually within 24 to 48 hours. This same technology allows businesses to process checks over the phone or the internet.

Whatever check-acceptance policy you develop, make sure your employees clearly understand the procedure to follow. Also be sure to post your check-acceptance policy prominently where customers can see it. Specify any charges for bounced checks, what forms of ID are required, and what types of checks you will and will not accept. Posting signs helps prevent disgruntlement when customers wait in line, only to find at the register that you can’t accept their check.

What if you do receive a bad check? In most cases, after a check bounces, the bank allows you another attempt to deposit it. After that, the responsibility for collecting the money falls on you.

Contact the customer, either by phone or mail. (Again, consult your local police on the proper procedure; some states require that a registered letter be sent and a specific amount of time elapse before other action can be taken.) Keep your cool; there’s nothing gained by being angry or hostile about the situation. Most people bounce checks
by accident. Explain the situation, and request immediate payment plus reimbursement for any bank charges you have incurred.

If the person still refuses to pay, or you cannot reach them, you have several options. The first, and probably the easiest, is to hold the check for a short time (up to six months) from the date it was written. Although banks will not allow the check to be deposited a third time, they will cash the check if there are sufficient funds. Call the debtor’s bank periodically to see if the funds are there. When they are, cash the check immediately.

Another option is going to the police. Since, through your check-acceptance procedure, you collected all the information needed to prosecute, you should be able to complete the proper paperwork. However, the hassle of hiring a lawyer, identifying suspects and going to court may be more effort than you want to expend for a $200 check. In that case, your best bet is to use a collection agency. (For more details on this, see the “Payment Due” section starting on page 319).

**Accepting Credit Cards**

Why should a small-business owner accept credit cards? There are dozens of reasons. First and foremost, research shows that credit cards increase the probability, speed and size of customer purchases. Many people prefer not to carry cash, especially when traveling. Others prefer to pay with credit cards because they know that it will be easier to return or exchange the merchandise.

Accepting credit cards has several advantages for business owners as well. It gives you the chance to increase sales by enabling customers to make impulse buys even when they do not have enough cash in their wallets or sufficient funds in their checking accounts. Accepting credit cards can improve your cash flow, because in most cases you receive the money within a few days instead of waiting for a check to clear or an invoice to come due. Finally, credit cards provide a guarantee that you will be paid, without the risks involved in accepting personal checks.
Merchant Status

To accept major credit cards from customers, your business must establish merchant status with each of the credit card companies whose
cards you want to accept. You’ll probably want to start by applying for merchant status with American Express or Discover. For these cards, all you need to do is contact American Express or Discover directly and fill out an application.

However, chances are you’ll want to accept Visa and MasterCard, too, since these are used more frequently. You cannot apply directly to Visa or MasterCard; because they are simply bank associations, you have to establish a merchant account through one of several thousand banks that set up such accounts, called “acquiring banks.”

The first thing you need to understand about accepting credit cards, explains Debra Rossi of Wells Fargo Bank, is that the bank views this as an extension of credit. “When we give you the ability to accept credit cards, we’re giving you the use of the funds before we get them. By the time the money arrives in the cardholder’s account, it could be another 30 days,” Rossi says. There’s also the real concern that if your company goes out of business before merchandise is shipped to customers, the bank will have to absorb losses.

While the requirements vary among banks, in general a business does not have to be a minimum size in terms of sales. However, some banks do have minimum requirements for how long you’ve been in business. This doesn’t mean a startup can’t get merchant status; it simply means you may have to look a little harder to find a bank that will work with you.

While being considered a “risky business”—typically a startup, mail order or homebased business—is one reason a bank may deny your merchant status request, the most common reason for denial is simply poor credit. Approaching a bank for a merchant account is like

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**WARNING**

To prevent credit card fraud, follow these steps every time a credit purchase is made:

- Check the signature on the charge slip against the one on the back of the card. This may seem basic, but you’d be surprised at how often it is neglected.
- Verify the card’s expiration date.
- Check frequently the credit card companies’ updated bulletins listing canceled card numbers.

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part 4 = PREPARE
applying for a loan. You must be prepared with a solid presentation that will persuade the bank to open an account for you.

You will need to provide bank and trade references, estimate what kind of credit card volume you expect to have and what you think the average transaction size will be. Bring your business plan and financial statements, along with copies of advertisements, marketing pieces and your catalog, if you have one. If possible, invite your banker to visit your store or operation. Banks will evaluate your product or service to see if there might be potential for a lot of returns or customer disputes. Called “chargebacks,” these refunds are very expensive for banks to process. They are more common among mail order companies and are one reason why these businesses typically have a hard time securing merchant status.

In your initial presentation, provide a reasonable estimate of how many chargebacks you will receive, then show your bank why you do not expect them to exceed your estimates. Testimonials from satisfied customers or product samples can help convince the bank your customers will be satisfied with their purchases. Another way to reduce the bank’s fear is to demonstrate that your product is priced at a fair market value.

Rossi at Wells Fargo says the bank’s goal is to find out if your business is profitable and if it will be around for a long time to come. “We approve a lot of startup businesses, and in those cases, we rely on the personal financial picture of the business principals,” she says. “We look at [their personal] tax returns and at where they got the money to start the business. We also look to see if you’re a customer at Wells Fargo and at your relationship with Wells.”

WARNING

Don’t ask another merchant to deposit your sales slips for you, and never let another business deposit slips through your account. This practice is called “laundering” sales slips, and not only is it prohibited by Visa and MasterCard, but it is also illegal in some states. Honest business owners have been wiped out by scam artists who ask them to deposit their sales slips, then rack up thousands of dollars in phony sales, which later turn into chargebacks.
As Rossi’s comment suggests, the best place to begin when trying to get merchant status is by approaching the bank that already holds your business accounts. If your bank turns you down, ask around for recommendations from other business owners who accept plastic. You could look in the Yellow Pages for other businesses in the same category as yours (homebased, retail, mail order). Call them to ask where they have their merchant accounts and whether they are satisfied with the way their accounts are handled. When approaching a bank with which you have no relationship, you may be able to sweeten the deal by offering to switch your other accounts to that bank as well.

If banks turn you down for merchant status, another option is to consider independent credit card processing companies, which can be found in the Yellow Pages. While independents often give the best rates because they have lower overhead, their application process tends to be more time-consuming, and startup fees are sometimes higher.

You can also go through an independent sales organization (ISO). These are field representatives from out-of-town banks who, for a commission, help businesses find banks willing to grant them merchant status. Your bank may be able to recommend an ISO, or you can look in the Yellow Pages or online under “Credit Cards.” An ISO can match your needs with those of the banks he or she represents without requiring you to go through the application process with all of them.

**Money Matters**

Enticing your bank with promising sales figures can also boost your case since the bank makes money when you do. Every time you accept a credit card for payment, the bank or card company deducts a percentage of the sale—called a “merchant discount fee”—and then credits your account with the rest of the sale amount.

Here are some other fees you can expect to pay. All of them are negotiable except for the discount fee:

- Equipment costs of $120 to $1,000
- Monthly statement fees of $10 or less
- Transaction fees of 20 to 70 cents per purchase
- The discount rate—the actual percentage you are charged per transaction based on projected card sales volume, the degree of risk and a few other factors (the percentage ranges from 2 to 4 percent; rates are usually higher for new, less established businesses)
- Chargeback fees around $25 per return transaction

There may also be some charges from the telephone company to set up a phone line for the authorization and processing equipment. Before you sign on with any bank, consider the costs carefully to make sure the anticipated sales are worth the costs.

**Getting Equipped**

Once your business has been approved for credit, you will receive a startup kit and personal instruction in how to use the system. You don’t need fancy equipment to process credit card sales. You can start with a phone and a simple imprinter that costs under $30. However, you’ll get a better discount rate (and get your money credited to your account faster) if you process credit card sales electronically.

Although it’s a little more expensive initially, purchasing or leasing a terminal that allows you to swipe the customer’s card through for an instant authorization of the sale (and immediate crediting of your merchant account) can save you money in the long run. Cash registers can also be adapted to process credit cards. Also, using your personal computer as opposed to a terminal to get authorization can cut costs per transaction even more.

Once you obtain merchant account status, make the most of it. The credit card and bank industries hold seminars and users’ conferences covering innovations in the industry, fraud detection techniques...
and other helpful subjects. You can ask a credit card company’s representatives for details…and keep on top of ways to get more from your customers’ credit cards.

**Online Payments**

Are you selling on the web? If so, you’ll need an internet merchant account to accept payments online. An internet merchant account costs more than a regular merchant account because the risk of credit card fraud is greater in an online environment, where no card is physically presented at the point of sale. To cover this risk, your bank or account issuer may charge a higher discount rate (3 to 5 percent per transaction vs. 2 to 4 percent for regular merchant accounts). The service provider may also charge monthly statement and transaction fees on each purchase. When you apply, you’ll likely need to estimate the average order size and the average monthly amount you expect to run through the account. You may be asked to keep a percentage of that amount in your account to cover fraud.

It’s possible to accept payments over the internet without establishing your own merchant account. Third-party payment processors like PayPal will accept credit card payments on your behalf in return for a percentage of the cost of the transaction. While this percentage is relatively higher than it would be if you had your own merchant account (often 7.5 to 15 percent), you only pay these fees if you sell your product. What’s more, you don’t have to pay the mandatory monthly fees charged by most merchant account providers. If your business has significant sales volume, it’s usually cheaper to process payments through a merchant account.
Thanks to the internet, small businesses have an unprecedented opportunity to market their products and services to a larger consumer audience than ever before. However, an online presence means little if customers don’t feel safe making a transaction on your website. Because identity theft and credit card fraud are running rampant on the internet, many consumers will not buy from a site that doesn’t provide secure transactions.

That’s where a Secure Sockets Layer (SSL) certificate comes into play. Understanding how SSL affects online security can help unlock your business’s e-commerce potential.

SSL technology encrypts your customers’ payment information as it travels to you over the internet, protecting credit card data and other sensitive information from hackers during the transaction process. It also verifies to customers that you are who you say you are (a padlock icon is visible, indicating that a secure transaction is underway). This prevents a third party from accepting orders while disguised as your business.

SSL certificates are issued by a Certificate Authority (such as VeriSign, Thawte, GeoTrust and others). The cost of a standard one-year certificate is $200 to $400.

If you store your customers’ data or credit card numbers on your server, a firewall is another vital tool for protecting this information. Many companies expose their customers to hackers by neglecting to implement a proper firewall. If you are uncertain how to install a firewall on your site, consult your web hosting company.

For more information, check out VeriSign’s “What Every E-Business Should Know about SSL Security and Consumer Trust.” You can request a free copy at verisign.com.
Accepting Debit Cards

If you foresee a merchant account for accepting credit card payments in your future, then you will be perfectly positioned to accept debit cards, too. The same terminal you will use to process credit card payments can be used for debit card transactions, although you may wish to add a pin pad terminal to your transaction hardware so customers can type in their PIN. That gives you an extra layer of protection against fraud.

There are a lot of advantages to accepting debit cards. First, because funds are deducted directly from the customer’s bank account during a transaction, you will usually get paid faster with debit transactions than you do with credit card payments. Second, rates for PIN-based debit transactions are usually lower than credit card rates because you pay only a flat fee (credit card companies charge a transaction fee and a discount rate of around 2 percent). Finally, merchant account providers may debit the transaction fees at the end of the month rather than with every purchase, as is the case with credit cards. That gives your business extra cash or “float,” which is especially helpful for small businesses.

Debit cards are so pervasive these days that pretty much every bank or standalone merchant account supplier offers debit card processing—including online providers—and, in fact, you’re likely to be offered the option when you apply for a merchant account. Once your merchant account is approved, all you need to do is buy a PIN pad, which runs as little as $59, connect it to your terminal, and you will be in business. Hypercom and VeriFone are well-known, affordably priced brands.
One of the most common mistakes startup business owners make is failing to buy adequate insurance for their businesses. It’s an easy error to make: Money is tight, and with so many things on your mind, protecting yourself against the possibility of some faraway disaster just doesn’t seem that important. “Oh, I will get insurance,” you promise yourself, “one of these days.” Soon, “one of these days” comes and goes, and you’re still uninsured. Only now, your business has gotten much bigger . . . you’ve put a lot more into it . . . and you have a lot more to lose. Everything, to be exact.

It doesn’t take much. A fire, a burglary, the illness of a key employee—any one of these could destroy everything you’ve worked so hard to build. When you think of all the time, effort and money you’re investing in your business, doesn’t it make sense to invest a little extra to protect it?
Following is a closer look at the types of business insurance available and what most entrepreneurs need, plus tips for keeping costs under control. (Health insurance is covered in Chapter 24.)

**Basic Insurance Needs**

The basic business insurance package consists of four fundamental coverages—workers’ compensation, general liability, auto and property/casualty—plus an added layer of protection over those, often called an umbrella policy. In addition to these basic needs, you should also consider purchasing business interruption coverage and life and disability insurance.

**Workers’ Compensation**

Workers’ compensation, which covers medical and rehabilitation costs and lost wages for employees injured on the job, is required by law in all 50 states.

Workers’ comp insurance consists of two components, with a third optional element. The first part covers medical bills and lost wages for the injured employee; the second encompasses the employer’s liability, which covers the business owner if the spouse or children of a worker who’s permanently disabled or killed decide to sue. The third and optional element of workers’ compensation insurance is employment practices liability, which insures against lawsuits arising from claims of sexual harassment, discrimination and the like.

“Employment practices liability protects the unknowing corporation from the acts of the individual,” according to a spokesperson at the Independent Insurance Agents of America (IIAA), an industry association. “Whether you need it depends on the size of your business and

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**e-FYI**

Internet businesses have unique needs—and now they have their own unique insurance. Companies like The Hartford offer insurance to protect against damage from web-based activities, including viruses and hacking, privacy violations, copyright infringement and more. Cyber policies are usually added to a business’s general liability coverage. Not all businesses qualify for such coverage, though, so talk to your insurance broker.
how much control you have over the daily work of employees.” This is something you may need to worry about as your company grows.

According to the IIAA, it is often hard for small companies to get workers’ compensation insurance at reasonable rates. Consequently, some states have a risk-sharing pool for firms that can’t buy from the private market. Typically state-run and similar to assigned risk pools for car insurance, these pools generally don’t provide the types of discounts offered in the voluntary market and thus are an “insurance of last resort.”

Because insurance agents aren’t always up-to-date on the latest requirements and laws regarding workers’ comp, you should check with your state, as well as your agent, to find out exactly what coverage you need. Start at your state’s department of insurance or insurance commissioner’s office.

Generally, rates for workers’ comp insurance are set by the state, and you purchase insurance from a private insurer. The minimum amount you need is also governed by state law. When you buy workers’ comp, be sure to choose a company licensed to write insurance in your state and approved by the insurance department or commissioner.

If you are purchasing insurance for the first time, the rate will be based on your payroll and the average cost of insurance in your industry. You’ll pay that rate for a number of years, after which an experience rating will kick in, allowing you to renegotiate premiums.

Depending on the state you are located in, the business owner will be either automatically included or excluded from coverage; if you want something different, you’ll need to make special arrangements. While excluding yourself can save you several hundred dollars, this can be penny-wise and pound-foolish. Review your policy before choosing

**SAVE**

Ask your insurance agent about risk-reduction tactics that you can use to help save money. Altering your business practices—for instance, installing better locks or brighter lights to prevent crime—can cut your premiums (and your risk). You may even want to change your business operations to get rid of a high-risk activity.
A better way to reduce premiums is by maintaining a good safety record. This could include following all the Occupational Health and Safety Administration guidelines related to your business, creating an employee safety manual and instituting a safety training program.

Another way to cut costs is to ensure that all jobs in your company are properly classified. Insurance agencies give jobs different classification ratings depending on the degree of risk of injury.

**General Liability**

Comprehensive general liability coverage insures a business against accidents and injury that might happen on its premises as well as exposures related to its products.

For example, suppose a visiting salesperson slips on a banana peel while taking a tour of your office and breaks her ankle. General liability covers her claim against you. Or let’s say your company is a window-sash manufacturer, with hundreds of thousands of its window sashes installed in people’s homes and businesses. If something goes wrong with them, general liability covers any claims related to the damage that results.

The catch is that the damage cannot be due to poor workmanship. This points to one difficulty with general liability insurance: It tends to have a lot of exclusions. Make sure you understand exactly what your policy covers . . . and what it doesn’t.

You may want to purchase additional liability policies to cover specific concerns. For example, many consultants purchase “errors and omissions liability,” which protects them in case they are sued for damages resulting from a mistake in their work. A computer consultant...
who accidentally deletes a firm’s customer list could be protected by this insurance, for example.

Companies with a board of directors may want to consider “directors’ and officers’ liability” (D&O), which protects top executives against personal financial responsibility due to actions taken by the company.

How much liability coverage do you need? Experts say $2 million to $3 million of liability insurance should be plenty. The good news is that liability insurance isn’t priced on a dollar-for-dollar basis, so twice the coverage won’t be twice the price.

The price you’ll have to pay for comprehensive general liability insurance depends on the size of your business (measured either by square footage or by payroll) and the specific risks involved.
**Auto Insurance**

If your business provides employees with company cars, or if you have a delivery van, you need to think about auto insurance. The good news here is that auto insurance offers more of an opportunity to save money than most other types of business insurance. The primary strategy is to increase your deductible; then your premiums will decrease accordingly. Make sure, however, that you can afford to pay the deductibles should an accident happen. For additional savings, remove the collision and comprehensive coverage from older vehicles in your fleet.

Pay attention to policy limits when purchasing auto coverage. Many states set minimum liability coverages, which may be well below what you need. If you don’t have enough coverage, the courts can take everything you have, then attach your future corporate income, thus possibly causing the company severe financial hardship or even bankruptcy. You should carry at least $1 million in liability coverage.

**Property/Casualty Coverage**

Most property insurance is written on an all-risks basis, as opposed to a named-peril basis. The latter offers coverage for specific perils spelled out in the policy. If your loss comes from a peril not named, then it isn’t covered.

Make sure you get all-risks coverage. Then go the extra step and carefully review the policy’s exclusions. All policies cover loss by fire, but what about such crises as hailstorms and explosions? Depending on
your geographic location and the nature of your business, you may want to buy coverage for all these risks.

Whenever possible, you should buy replacement cost insurance, which will pay you enough to replace your property at today’s prices, regardless of the cost when you bought the items. It’s protection from inflation. (Be sure your total replacements do not exceed the policy cap.)

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### PACKAGE DEAL

If figuring out what insurance you need makes your head spin, calm down; chances are, you won’t have to consider the whole menu. Most property and casualty companies now offer special small-business insurance policies.

A standard package policy combines liability; fire, wind and vehicle damage; burglary; and other common coverages. That’s enough for most small stores and offices, such as an accounting firm or a gift store. Some common requirements for a package policy are that your business occupy less than 15,000 square feet and that the combined value of your office building, operation and inventory be less than $3 million.

Basic package policies typically cover buildings, machinery, equipment and furnishings. That should protect computers, phones, desks, inventory and the like against loss due to robbery and employee theft, in addition to the usual risks such as fire. A good policy pays full replacement cost on lost items.

A package policy also covers business interruption, and some even offer you liability shelter. You may also be covered against personal liability. To find out more about package policies, ask your insurance agent; then shop around and compare.
For example, if you have a 30,000-square-foot building that costs $50 per square foot to replace, the total tab will be $1.5 million. But if your policy has a maximum replacement of $1 million, you’re going to come up short. To protect yourself, experts recommend buying replacement insurance with inflation guard. This adjusts the cap on the policy to allow for inflation. If that’s not possible, then be sure to review the limits of your policy from time to time to ensure you’re still adequately covered.

**Umbrella Coverage**

In addition to these four basic “food groups,” many insurance agents recommend an additional layer of protection, called an *umbrella policy*. This protects you for payments in excess of your existing coverage or for liabilities not covered by any of your other insurance policies.

**Business Interruption Coverage**

When a hurricane or earthquake puts your business out of commission for days—or months—your property insurance has it covered. But while property insurance pays for the cost of repairs or rebuilding, who pays for all the income you’re losing while your business is unable to function?

For that, you’ll need business interruption coverage. Many entrepreneurs neglect to consider this important type of coverage, which can provide enough to meet your overhead and other expenses during the time your business is out of commission. Premiums for these policies are based on your company’s income.

**Life Insurance**

Many banks require a life insurance policy on the business owner before lending any money. Such policies typically take the form of term life insurance, purchased yearly, which covers the cost of the loan in the event of the borrower’s death; the bank is the beneficiary.
Term insurance is less costly than permanent insurance at first, although the payments increase each year. Permanent insurance builds equity and should be considered once the business has more cash to spend. The life insurance policy should provide for the families of the owners and key management. If the owner dies, creditors are likely to take everything, and the owner’s family will be left without the income or assets of the business to rely on.

Another type of life insurance that can be beneficial for a small business is “key person” insurance. If the business is a limited partnership or has a few key stockholders, the buy-sell agreement should specifically authorize this type of insurance to fund a buyback by the surviving leadership. Without a provision for insurance to buy capital, the buy-sell agreement may be rendered meaningless.

The company is the beneficiary of the key person policy. When the key person dies, creating the obligation to pay, say, $100,000 for his or her stock, the cash with which to make that purchase is created at the same time. If you don’t have the cash to buy the stock back from the surviving family, you could find yourself with new “business partners” you never bargained for—and wind up losing control of your business.

In addition to the owners or key stockholders, any member of the company who is vital to operations should also be insured.

**Disability Insurance**

It’s every businessperson’s worst nightmare—a serious accident or a long-term illness that can lay you up for months, or even longer. Disability insurance, sometimes called “income insurance,” can guarantee a fixed amount of income—usually 60 percent of your average earned income—while you’re receiving treatment or are recuperating.
and unable to work. Because you are your business’s most vital asset, many experts recommend buying disability insurance for yourself and key employees from day one.

There are two basic types of disability coverage: short term (anywhere from 12 weeks to a year) and long term (more than a year). An important element of disability coverage is the waiting period before benefits are paid. For short-term disability, the waiting period is generally seven to 14 days. For long-term disability, it can be anywhere from 30 days to a year. If being unable to work for a limited period of

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**READ ALL ABOUT IT**

Want to know more about insurance? Check out these publications and websites:

- *Insuring Your Home Business and Insuring Your Business Against a Catastrophe*. Single copies of these brochures are available free from the Insurance Information Institute’s website at iii.org.

- *101 Ways to Cut Business Insurance Costs Without Sacrificing Protection*. Written by William Stokes McIntyre, Jack P. Gibson and Robert A. Bregman, this book is published by the International Risk Management Institute (IRMI) and is available at local and online bookstores or through the IRMI (irmi.com).

- *The Self-Insurer*. This monthly magazine is published by the Self-Insurance Institute of America Inc. A one-year subscription is $195.50. Subscribe at siia.org.

- *WorkersCompensation.com*. This website provides workers’ comp information, insurance quotes and provider names by state, as well as news and information of interest to employers. Go to workerscompensation.com.
time would not seriously jeopardize your business, you can decrease your premiums by choosing a longer waiting period.

Another optional add-on is “business overhead” insurance, which pays for ongoing business expenses, such as office rental, loan payments and employee salaries, if the business owner is disabled and unable to generate income.

**Choosing an Insurance Agent**

Given all the factors that go into business insurance, deciding what kind of coverage you need typically requires the assistance of a qualified insurance agent.

**Type of Agent**

Selecting the right agent is almost as important, and sometimes as difficult, as choosing the types of coverage you need. The most fundamental question regarding agents is whether to select a direct writer—that is, someone who represents just one insurance company—or a broker, who represents many companies.

Some entrepreneurs feel they are more likely to get their money’s worth with a broker because he or she shops all kinds of insurance companies for them. Others feel brokers are more efficient because they compare the different policies and give their opinions, instead of the entrepreneur having to talk to several direct writers to evaluate each of their policies. Another drawback to direct writers: If the insurance company drops your coverage, you lose your agent, too, and all his or her accumulated knowledge about your business.

If you’re baffled by the many insurance options available for small-business owners, check out the Business.gov website at business.gov/finance/business-insurance. On this site, you can learn about the types of business insurance policies available and the insurance requirements for businesses with employees. The site also provides tips for buying insurance and links to useful industry resources.
Still, some people prefer direct writers. Why? An agent who writes insurance for just one company has more clout there than an agent who writes for many. So when something goes wrong, an agent who works for the company has a better chance of getting you what you need. Finally, direct writers often specialize in certain kinds of businesses and can bring a lot of industry expertise to the table.

**Finding an Agent**

To find an insurance agent, begin by asking a few of your peers whom they recommend. If you want more names, a trade association in your state may have a list of recommended agencies or offer some forms of group coverage with attractive rates (see the “Cost Containment” section in Chapter 24 for more).

Once you have a short list of agencies to consider, start looking for one you can develop a long-term relationship with. As your business grows and becomes more complicated, you’ll want to work with someone who understands your problems. You don’t want to spend a lot of time teaching the agent the ins and outs of your business or industry.

Find out how long the agency has been in business. An agency with a track record will likely be around to help you in the future. If the agency is new, ask about the principals; have they been in the industry long enough that you feel comfortable with their knowledge and stability?

One important area to investigate is loss-control service (which includes everything from fire-safety programs to reducing employees’ exposures to injuries). The best way to reduce your premiums over the long haul is to minimize claims, and the best way to do that is through loss-control services. Look for a broker who will review and analyze which of the carriers offer the best loss-control services.

Another consideration is the size of the agency. The trend in insurance is consolidation. If you’re looking for a long-term relationship,
you want to avoid an agency that is going to get bought out. One way to get a handle on whether the agency you are considering is a likely acquiree is by looking at the agency’s owner. If he or she is older and is not grooming a successor, there’s a chance the agency will get bought out.

Verify the level of claims service each agency provides. When a claim arises, you don’t want the agent telling you to call some toll-free number. If that’s his or her idea of claims service, keep looking. An agency that gets involved in the claims process and works with the adjuster can have a positive impact on your settlement, while an agency that doesn’t get involved tends to minimize your settlement.

You want an insurance agency that will stay on top of your coverage and be on the spot to adjust it as your business changes. Of course,

**Policy Pointers**

Looking for some of the best small-business insurance resources on the web? Check these out:

- **Safeware** (safeware.com). This company covers computers against damage, theft, power surges and other high-tech disasters.

- **Insurance Information Institute** (iii.org). This site puts business insurance news, facts and figures at your fingertips. Click on “Insurance Topics” for links to a plethora of business insurance information.

- **Cigna** (cigna.com). Despite its bent toward larger companies, this user-friendly site contains a slew of informative and entertaining insurance-related resources.

- **AllBusiness.com** (allbusiness.com). This general business site, which is affiliated with D&B, harbors a treasure trove of small-business insurance information. Just search for “Small Business Insurance” or the variation you’re interested in to find literally thousands of articles.
it’s always difficult to separate promises from what happens after the sale is closed. However, you might ask would-be agents how often they will be in touch. Even for the most basic business situation, the agent should still meet with you at least twice a year. For more complex situations, the agent should call you monthly.

You also want to make sure the company your agent selects or represents is highly rated. While there are numerous rating agencies, the

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**STAKING YOUR CLAIM**

Though you hope it never happens, you may someday have to file an insurance claim. These tips should make it easier:

- **Report incidents immediately.** Notify your agent and carrier right away when anything happens—such as a fire, an accident or theft—that could result in a claim.

- **Take steps to protect your property from further damage.** Most policies cover the cost of temporary repairs to protect against further damage, such as fixing a window to prevent looting.

- **If possible, save damaged parts.** A claims adjuster may want to examine them after equipment repairs have been made.

- **Get at least two repair estimates.** Your claims adjuster can tell you what kind of documentation the insurance company wants for bids on repairs.

- **Provide complete documentation.** The insurance company needs proof of loss. Certain claims require additional evidence. For example, a claim for business interruption will need financial data showing income before and after.

- **Communicate with your agent and claims adjustor.** Though your claim is against the insurance company, your agent should be kept informed so he or she can help if needed.
most respected is A.M. Best, which rates the financial strength of insurance companies from A++ to F, according to their ability to pay claims and their size. You can find their rating book, *Best Rating Guide*, at your local library or you can search Best’s ratings online at ambest.com. You will have to register with the site for access, but searching is free. Look for a carrier rated no lower than B+.

Also make sure the agent you choose is licensed by the state. The best way to find out is by calling your state insurance department, listed in the telephone book. If you can’t find a number there, call the National Insurance Consumer helpline at (800) 942-4242.

Ask for references, and check them. This is the best way to predict how an agent will work with you.

Last but not least, trust your gut. Does the agent listen to you and incorporate your concerns into the insurance plan? Does he or she act as a partner or just a vendor? A vendor simply sells you insurance. Your goal is to find an agent who functions as a partner, helping you analyze risks and decide the best course of action. Of course, partnership is a two-way street. The more information you provide your agent, the more he or she can do for you.

**Insurance Costs**

As with most other things, when it comes to insurance, you get what you pay for. Don’t pay to insure against minor losses, but don’t ignore real perils just because coverage carries hefty premiums.

You can lower your premiums with a higher deductible. Many agents recommend higher deductibles on property insurance and putting the money you save toward additional liability coverage.
How much can you afford for a deductible or uninsured risk? Look at your cash flow. If you can pay for a loss out of cash on hand, consider not insuring it.

You can also save money on insurance by obtaining it through a trade group or an association. Many associations offer insurance tailored to your industry needs—everything from disability and health to liability and property coverage. You can also help keep insurance costs down by practicing these good insurance habits:

- **Review your needs and coverage once a year.** If your circumstances or assets have changed, you may need to adjust your insurance coverage.
- **Ask your insurance agent for risk-reduction assistance.** He or she should be able to visit your premises and identify improvements that would create a safer facility.
- **Check out new insurance products.** Ask your agent to keep you up-to-date on new types of coverage you may want.
- **Take time to shop for the best, most appropriate coverage.** A few hours invested upfront can save thousands of dollars in premiums or claims down the road.
## Business Insurance Planning Worksheet

<table>
<thead>
<tr>
<th>Types of Insurance</th>
<th>Required (Yes/No)</th>
<th>Annual Cost</th>
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<td>1. Workers’ compensation insurance</td>
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<td>2. General liability insurance</td>
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<td>3. Automotive liability insurance</td>
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<td>4. Property/casualty insurance</td>
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<td>5. Product liability insurance</td>
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<td>6. Errors and omissions liability insurance</td>
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<td>7. Malpractice liability insurance</td>
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<td>8. Web-based business insurance</td>
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<td>9. Fire and theft insurance</td>
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<td>10. Business interruption insurance</td>
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<td>11. Overhead expense insurance</td>
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<td>12. Personal disability</td>
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<td>13. Key person insurance</td>
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<td>14. Shareholders’ or partners’ insurance</td>
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<td>15. Credit extension insurance</td>
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<td>16. Term life insurance</td>
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<td>17. Health insurance</td>
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<td>18. Directors’ and officers’ liability insurance</td>
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<td>19. Survivor-income life insurance</td>
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<td>20. Care, custody and control insurance</td>
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<td>21. Consequential losses insurance</td>
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## Business Insurance Planning Worksheet, continued

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<tr>
<th>Types of Insurance</th>
<th>Required (Yes/No)</th>
<th>Annual Cost</th>
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<tr>
<td>22. Boiler and machinery insurance</td>
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<td>23. Profit insurance</td>
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<td>24. Money and securities insurance</td>
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<td>25. Glass insurance</td>
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<td>26. Electronic equipment insurance</td>
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<td>27. Power interruption insurance</td>
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<td>28. Rain insurance</td>
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<td>29. Temperature damage insurance</td>
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<td>30. Transportation insurance</td>
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<td>31. Title insurance</td>
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<td>32. Water damage insurance</td>
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<td><strong>Total Annual Insurance Cost</strong></td>
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<td><strong>$</strong></td>
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To hire or not to hire? That is the question in the mind of the new entrepreneur. You see, hiring even one employee changes everything. Suddenly, you need payroll procedures, rules regarding hours, and a policy for vacation pay. You’re hit with a multitude of legal requirements and management duties you’d never have to deal with if you worked solo.

To decide whether you need employees, take a closer look at your ultimate goals. Do you want to create the next Starbucks, or do you simply want to work on your own terms without a boss looking over your shoulder? If your goals are modest, then adding a staff may not be the best solution for you.

If you do need employees, there are plenty of ways to meet your staffing needs—without driving yourself nuts. From temporaries and independent
contractors to employee leasing, this chapter takes a closer look at the dos and don’ts of staffing your business. Read it over, and you will have a better idea whether hiring is the right solution for you.

**How To Hire**

The employees you hire can make or break your business. While you may be tempted to hire the first person who walks in the door “just to get it over with,” doing so can be a fatal error. A small company cannot afford to carry dead wood on staff, so start smart by taking time to figure out your staffing needs before you even begin looking for job candidates.

**Job Analysis**

Begin by understanding the requirements of the job being filled. What kind of personality, experience and education are needed? To determine these attributes, sit down and do a job analysis covering the following areas:

- The physical/mental tasks involved (ranging from judging, planning and managing to cleaning, lifting and welding)
- How the job will be done (the methods and equipment used)
- The reason the job exists (including an explanation of job goals and how they relate to other positions in the company)
- The qualifications needed (training, knowledge, skills and personality traits)

If you are having trouble, one good way to get information for a job analysis is to talk to employees and supervisors at other companies that have similar positions.
Job Analysis

Date: ______________________  Prepared By: ______________________

Title: ______________________  Department: ______________________

Job Title: ____________________________________________________

Reporting To: __________________________________________________

Major Responsibilities: __________________________________________

________________________________________________________________

________________________________________________________________

________________________________________________________________

Minor Responsibilities: __________________________________________

________________________________________________________________

________________________________________________________________

________________________________________________________________

Education/Experience Required: __________________________________

________________________________________________________________

________________________________________________________________

________________________________________________________________

Goals/Objectives of Position: ______________________________________

________________________________________________________________

________________________________________________________________

________________________________________________________________
Job Description

Use the job analysis to write a job description and a job specification. Drawing from these concepts, you can then create your recruitment materials, such as a classified ad.

The job description is basically an outline of how the job fits into the company. It should point out in broad terms the job’s goals, responsibilities and duties. First, write down the job title and whom that person will report to. Next, develop a job statement or summary describing the
position’s major and minor duties. Finally, define how the job relates to other positions in the company. Which are subordinate and which are of equal responsibility and authority?

For a one-person business hiring its first employee, these steps may seem unnecessary, but remember, you are laying the foundation for your personnel policy, which will be essential as your company grows. Keeping detailed records from the time you hire your first employee will make things a lot easier when you hire your 50th.

The job specification describes the personal requirements you expect from the employee. Like the job description, it includes the job title, whom the person reports to, and a summary of the position. However, it also lists any educational requirements, desired experience, and specialized skills or knowledge required. Include salary range and benefits. Finish by listing any physical or other special requirements associated with the job, as well as any occupational hazards.

Writing the job description and job specifications will also help you determine whether you need a part- or full-time employee, whether the person should be permanent or temporary, and whether you could use an independent contractor to fill the position (more on all these options later).

Writing the Ad

Use the job specification and description to write an ad that will attract candidates to your company. The best way to avoid wasting time on interviews with people who do not meet your needs is to write an ad that will lure qualified candidates and discourage others. Consider this example:
Interior designer seeks inside/outside salesperson. Flooring, drapes (extensive measuring), furniture, etc. In-home consultations. Excellent salary and commission. PREVIOUS EXPERIENCE A NECESSITY. San Francisco Bay Area. Send resume to G. Green at P.O. Box 5409, San Francisco, CA 90842.

This job description is designed to attract a flexible salesperson and eliminate those who lack the confidence to work on commission. The advertiser asks for expertise in “extensive measuring,” the skill he has had the most difficulty finding. The job location should be included to weed out applicants who don’t live in the area or aren’t willing to

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**Job Description**

Date: ______________________ Prepared By: ______________________

Title: ______________________ Department: ______________________

Job Title: __________________ Reporting To: ______________________

**Job Statement:**

________________________________________________________________________

________________________________________________________________________

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________________________________________________________________________

**Major Duties**

1. __________________________________________________________
Job Description, continued

2. ____________________________________________________________

3. ____________________________________________________________

4. ____________________________________________________________

5. ____________________________________________________________

6. ____________________________________________________________

7. ____________________________________________________________

Minor Duties

1. ____________________________________________________________

2. ____________________________________________________________

3. ____________________________________________________________

4. ____________________________________________________________

5. ____________________________________________________________

6. ____________________________________________________________

7. ____________________________________________________________

Relationships

Number of People Supervised: __________________________________

Person Giving Work Assignments: ________________________________
commute or relocate. Finally, the capitalized “PREVIOUS EXPERIENCE A NECESSITY” underscores that he will hire only candidates with previous experience.

To write a similarly targeted ad for your business, look at your job specifications and pull out the top four or five skills that are most essential to the job. Don’t, however, list requirements other than educational or experience-related ones in the ad. Nor should you request specific personality traits (such as outgoing, detail-oriented) since people are likely to come in and imitate those characteristics when they don’t really possess them. Instead, you should focus on telling the applicants about the excitement and challenge of the job, the salary, what they will get out of it and what it will be like working for you.

Finally, specify how applicants should contact you. Depending on the type of job (professional or nonskilled) you are trying to fill, you may want to have the person send a cover letter and a resume, or simply call to set up an appointment to come in and fill out an application.

**Recruiting Employees**

The obvious first choice for recruiting employees is the classified ad section of your local newspaper, both in the printed and online versions. Place your ad in the Sunday or weekend edition of the largest-circulation local papers.

Beyond this, however, there are plenty of other places to recruit good employees. Here are some ideas:

- **Tap into your personal and professional network.** Tell everyone you know—friends, neighbors, professional associates, customers, vendors, colleagues from associations—that you have a job opening. Someone might know of the perfect candidate.
Contact school placement offices. List your openings with trade and vocational schools, colleges and universities. Check with your local school board to see if high schools in your area have job training and placement programs.

Post notices at senior citizen centers. Retirees who need extra income or a productive way to fill their time can make excellent employees.

Use an employment agency. Private and government-sponsored agencies can help with locating and screening applicants. Often their fees are more than justified by the amount of time and money you save.

List your opening with an appropriate job bank. Many professional associations have job banks for their members. Contact groups related to your industry, even if they are outside your local area, and ask them to alert their members to your staffing needs.

Use industry publications. Trade association newsletters and industry publications often have classified ad sections where members can advertise job openings. This is a very effective way to attract skilled people in your industry.

Go online. There are a variety of online job banks and databases that allow employers to list openings. These databases can be searched by potential employees from all over the country. One to explore: LinkedIn, an international professional networking site, where you can post jobs and find candidates through the site’s automated talent matching system. Check it out at linkedin.com.

If relevant, ask employees to send samples of their work with their resumes or to bring them to the interview. Another technique: Ask them to complete a project similar to the actual work they’d be doing (and pay them for it). This gives you a strong indication of how they would perform on the job . . . and gives them a clear picture of what you expect from them.
**Prescreening Candidates**

Two important tools in prescreening job candidates are the resume and the employment application. If you ask applicants to send in a resume, that will be the first tool you use to screen them. You will then have qualified candidates fill out an application when they come in for an interview. If you don’t ask for a resume, you will probably want to have prospective employees come in to fill out applications, then review the applications and call qualified candidates to set up an interview.

In either case, it is important to have an application form ready before you begin the interview process. You can buy generic application forms at most office-supply stores, or you can develop your own application form to meet your specific needs. Make sure any application form you use conforms to Equal Employment Opportunity Commission (EEOC) guidelines regarding questions you can and cannot ask (see “Off Limits” on page 365 for more on this).

Your application should ask for specific information such as name, address and phone number; educational background; work experience, including salary levels; awards or honors; whether the applicant can work full or part time as well as available hours; and any special skills relevant to the job (foreign languages, familiarity with software programs, etc.). Be sure to ask for names and phone numbers of former supervisors to check as references; if the candidate is currently employed, ask whether it is OK to contact his or her current place of employment. You may also want to ask for personal references. Because many employers these days hesitate to give out information about an employee, you may want to have the applicant sign a waiver that states the employee authorizes former and/or current employers to disclose information about him or her.

When screening resumes, it helps to have your job description and specifications in front of you so you can keep the qualities and skills you are looking for clearly in mind. Since there is no standard form for resumes, evaluating them can be very subjective. However, there are certain components that you should expect to find in a resume. It should contain the prospect’s name, address and telephone number at
the top and a brief summary of employment and educational experience, including dates. Many resumes include a “career objective” that describes what kind of job the prospect is pursuing; other applicants state their objectives in their cover letters. Additional information you may find on a resume or in a cover letter includes references, achievements and career-related affiliations.

Look for neatness and professionalism in the applicant’s resume and cover letter. A resume riddled with typos raises some serious red flags. If a person can’t be bothered to put his or her best foot forward during this crucial stage of the game, how can you expect him or her to do a good job if hired?
There are two basic types of resumes: the “chronological” resume and the “functional” resume. The chronological resume, which is what most of us are used to seeing, lists employment history in reverse chronological order, from most recent position to earliest. The functional resume does not list dates of employment; instead, it lists different skills or “functions” that the employee has performed.

Although chronological resumes are the preferred format among HR professionals and hiring managers, functional resumes have increased in popularity in recent years. In some cases, they are used by downsized executives who may be quite well-qualified and are simply trying to downplay long periods of unemployment or make a career change. In other cases, however, they signal that the applicant is a job-hopper or has something to hide.

Because it’s easy for people to embellish resumes, it’s a good idea to have candidates fill out a job application, by mail or in person, and then compare it to the resume. Because the application requires information to be completed in chronological order, it gives you a more accurate picture of an applicant’s history.

Beyond functional and chronological resumes, there is another type of resume that’s more important to be on the lookout for. That’s what one consultant calls an “accomplishment” vs. a “responsibility” resume.

The responsibility resume is just that. It emphasizes the job description, saying things like “Managed three account executives; established budgets; developed departmental contests.” An accomplishment resume, on the other hand, emphasizes accomplishments and results, such as “Cut costs by 50 percent” or “Met quota every month.” Such a resume tells you that the person is an achiever and has the bottom line firmly in mind.
Equal Employment Opportunity Commission (EEOC) guidelines, as well as federal and state laws, prohibit asking certain questions of a job applicant, either on the application form or during the interview. What questions to sidestep? Basically, you can’t ask about anything not directly related to the job, including:

- Age or date of birth (except when necessary to satisfy applicable age laws)
- Sex, race, creed, color, religion or national origin
- Disabilities of any kind
- Date and type of military discharge
- Marital status
- Maiden name (for female applicants)
- If a person is a citizen; however, you can ask if he or she, after employment, can submit proof of the legal right to work in the United States

Other questions to avoid:

- How many children do you have? How old are they? Who will care for them while you are at work?
- Have you ever been treated by a psychologist or a psychiatrist?
- Have you ever been treated for drug addiction or alcoholism?
- Have you ever been arrested? (You may, however, ask if the person has been convicted if it is accompanied by a statement saying that a conviction will not necessarily disqualify an applicant for employment.)
- How many days were you sick last year?
When reading the resume, try to determine the person’s career patterns. Look for steady progress and promotions in past jobs. Also look for stability in terms of length of employment. A person who changes jobs every year is probably not someone you want on your team. Look for people with three- to four-year job stints.

At the same time, be aware of how economic conditions can affect a person’s resume. During a climate of frequent corporate downsizing, for example, a series of lateral career moves may signal that a person is a survivor. This also shows that the person is interested in growing and willing to take on new responsibilities, even if there was no corresponding increase in pay or status.

By the same token, just because a resume or a job application has a few gaps in it doesn’t mean you should overlook it entirely. You could be making a big mistake. Stay focused on the skills and value the job applicant could bring to your company.

**Interviewing Applicants**

Once you’ve narrowed your stack of resumes down to ten or so top candidates, it’s time to start setting up interviews. If you dread this portion of the process, you’re not alone. Fortunately, there are some ways to put both yourself and the candidates at ease—and make sure you get
all the information you need to make a smart decision. Start by preparing a list of basic interview questions in advance. While you won’t read off this list like a robot, having it in front of you will ensure you cover all the bases and also make sure you ask all the candidates the same questions.

The initial few moments of an interview are the most crucial. As you meet the candidate and shake his or her hand, you will gain a strong impression of his or her poise, confidence and enthusiasm (or lack thereof). Qualities to look for include good communication skills, a neat and clean appearance, and a friendly and enthusiastic manner.

Put the interviewee at ease with a bit of small talk on neutral topics. A good way to break the ice is by explaining the job and describing the company—its business, history and future plans.

Then move on to the heart of the interview. You will want to ask about several general areas, such as related experience, skills, educational training or background, and unrelated jobs. Open each area with a general, open-ended question, such as “Tell me about your last job.” Avoid questions that can be answered with a “yes” or “no” or that prompt obvious responses, such as “Are you detail-oriented?” Instead, ask questions that force the candidate to go into detail. The best questions are follow-up questions such as “How did that situation come about?” or “Why did you do that?” These queries force applicants to abandon preplanned responses and dig deeper.

Here are some interview questions to get you started:

- If you could design the perfect job for yourself, what would you do? Why?
What kind of supervisor gets the best work out of you?
How would you describe your current supervisor?
How do you structure your time?
What are three things you like about your current job?
What were your three biggest accomplishments in your last job? 
In your career?
What can you do for our company that no one else can?
What are your strengths/weaknesses?
How far do you think you can go in this company? Why?
What do you expect to be doing in five years?
What interests you most about this company? This position?
Describe three situations where your work was criticized.
Have you hired people before? If so, what did you look for?

Your candidate’s responses will give you a window into his or her knowledge, attitude and sense of humor. Watch for signs of “sour grapes” about former employers. Also be alert for areas people seem reluctant to talk about. Probe a little deeper without sounding judgmental.

Pay attention to the candidate’s nonverbal cues, too. Does she seem alert and interested, or does she slouch and yawn? Are his clothes wrinkled and stained or clean and neat? A person who can’t make an effort for the interview certainly won’t make one on the job if hired.

Finally, leave time at the end of the interview for the applicant to ask questions—and pay attention to what he or she asks. This is the time when applicants can really show they have done their homework and researched your company . . . or, conversely, that all they care about is what they can get out of the job. Obviously, there is a big difference between the one who says, “I notice that your biggest competitor’s sales have doubled since launching their website in January. Do you have any plans to develop a website of your own?” and the person who asks, “How long is the lunch break?” Similarly, candidates who can’t come up with even one question may be demonstrating that they can’t think on their feet.
Want to get good employees and tax savings, too? Consider putting your family members to work for you.

Hiring family, especially children, enables you to move family income out of a higher tax bracket into a lower one. It also enables you to transfer wealth to your kids without incurring federal gift or estate taxes.

Subject to applicable child labor laws, even preteen children can be put to work stuffing envelopes, filing or sorting mail, says Daniel Hart, a tax and estate planning attorney with Turner Padget Graham & Laney in Florence, South Carolina. If a child’s salary is reasonable, it is considered earned income and not subject to the “kiddie tax” rules that can apply to anyone under the age of 23. And if your business is unincorporated, wages paid to a child under 18 are not subject to Social Security or FICA taxes. That means neither you nor your child has to pay these taxes. Finally, employed youngsters can make tax-deductible contributions to an individual retirement account.

Be sure to document the type of work the family member is doing and pay them a comparable amount to what you’d pay another employee, or the IRS will think you’re putting your family on the payroll just for the tax breaks. Keep careful records of time worked, and make sure the work is necessary to the business.

Your accountant can suggest other ways to take advantage of this tax situation without getting in hot water.

End the interview by letting the candidate know what to expect next. How much longer will you be interviewing? When can they expect to hear from you? You are dealing with other people’s livelihoods, so the
week that you take to finish your interviews can seem like an eternity to them. Show some consideration by keeping them informed.

During the interview, jot down notes (without being obvious about it). After the interview, allow five or ten minutes to write down the applicant’s outstanding qualities and evaluate his or her personality and skills against your job description and specifications.

**Checking References**

After preliminary interviews, you should be able to narrow the field to three or four top candidates. Now’s the time to do a little detective work.

It’s estimated that up to one-third of job applicants lie about their experience and educational achievements on their resumes or job applications. No matter how sterling the person seems in the interview process, a few phone calls upfront to check out their claims could save you a lot of hassle—and even legal battles—later on.

Today, courts are increasingly holding employers liable for crimes employees commit on the job, such as drunk driving, when it is determined that the employer could have been expected to know about prior convictions for similar offenses.

Unfortunately, getting that information has become harder and harder to do. Fearful of reprisals from former employees, many firms have adopted policies that forbid releasing detailed information. Generally, the investigating party is referred to a personnel department, which supplies dates of employment, title and salary—period.

There are ways to dig deeper, however. Try to avoid the human resources department if at all possible. Instead, try calling the person’s former supervisor directly. While the supervisor may be required to
Sometimes, too, a supervisor can tip you off without saying anything that will get him or her in trouble. Consider the supervisor who, when contacted by one potential employer, said, “I only give good references.” When the employer asked, “What can you tell me about X?” the supervisor repeated, “I only give good references.” Without saying anything, he said it all.

Depending on the position, you may also want to do education checks. You can call any college or university’s admissions department to verify degrees and dates of attendance. Some universities will require a written request or a signed waiver from the applicant before releasing any kind of information to you.

If the person is going to be driving a company vehicle, you may want to do a motor vehicle check with the department of motor vehicles. In fact, you may want to do this even if he or she will not be driving for you. Vehicle checks can uncover patterns of negligence or drug and alcohol problems that he or she might have.

If your company deals with property management, such as maintenance or cleaning, you may want to consider a criminal background check as well. Unfortunately, national criminal records and even state records are not coordinated. The only way to obtain criminal records is to go to individual courthouses in each county. Although you can’t run all over the state to check into a person’s record, it’s generally sufficient to investigate records in three counties—birthplace, current residence and residence preceding the current residence.

For certain positions, such as those that will give an employee access to your company’s cash (a cashier or an accounting clerk, for Whenever possible, look for employees you can cross-train for different jobs. A welder with college courses in engineering and a secretary with human resources experience are workers one business owner has successfully cross-trained. Cross-trained employees can fill in when others are absent, helping keep costs down.
instance), a credit check may be a good idea as well. You can find credit
reporting bureaus in any Yellow Pages. They will be able to provide
you with a limited credit and payment history. While you should not
rely on this as the sole reason not to hire someone (credit reports are
notorious for containing errors), a credit report can contribute to a
total picture of irresponsible behavior. And if the person will have
access to large sums of money at your company, hiring someone who
is in serious debt is probably not a very good idea.

Be aware, however, that if a credit check plays any role in your
decision not to hire someone, you must inform them that they were
turned down in part because of their credit report.

If all this background-checking seems too time-consuming to han-
dle yourself, you can contract the job out to a third-party investigator.
Look in the Yellow Pages for firms in your area that handle this task,
or Google “background checking.” A criminal check can cost as little
as $20; a full investigation averages $50. There are even better deals
online, so be sure to shop around. It’s a small price to pay when you
consider the damages it might save you.

**After the Hire**

Congratulations! You have hired your first employee. Now what?

As soon as you hire, call or write the applicants who didn’t make
the cut and tell them you’ll keep their applications on file. That way, if
the person you hired isn’t the best—or is so good that business dou-
bles—you won’t have to start from scratch in hiring your second
employee.

For each applicant you interviewed, create a file including your
interview notes, the resume and the employment application. For the
person you hire, that file will become the basis for his or her personnel
file. Federal law requires that a job application be kept at least three
years after a person is hired.

Even if you don’t hire the applicant, make sure you keep the file.
Under federal law, all recruitment materials, such as applications and
resumes, must be kept for at least six months after the employment decision has been made. In today’s climate, where applicants sometimes sue an employer who decides not to hire them, it’s a good idea to maintain all records related to a hire (or nonhire). Especially for higher-level positions where you narrow the field to two or three candidates, put a brief note or memo in each applicant’s file explaining why he or she was or wasn’t hired.

The hiring process doesn’t end with making the selection. Your new employee’s first day is critical. People are most motivated on their first day. Build on the momentum of that motivation by having a place set up for them to work, making them comfortable and welcome. Don’t just dump them in an office and shut your door. Be prepared to spend some time with them, explaining job duties, introducing them to their office mates, getting them started on tasks or even taking them out to lunch. By doing so, you are building rapport and setting the stage for a long and happy working relationship.

Alternatives to Full-Time Employees

The traditional full-time employee is not your only hiring option. More employers are turning to alternative arrangements, including leased employees, temporary employees, part-timers and interns. All these strategies can save you money—and headaches, too.

Leased Employees

If payroll paperwork, personnel hassles and employee manuals sound like too much work to deal with, consider an option that’s growing in popularity: employee leasing.
Employee leasing—a means of managing your human resources without all the administrative hassles—first became popular in California in the early '80s, driven by the excessive cost of health-care benefits in the state. By combining the employees of several companies into one larger pool, employee leasing companies (also known as professional employer organizations, or PEOs) could offer business owners better rates on health-care and workers’ compensation coverage.

Today, there are more than two to three million leased employees in the United States, and the employee leasing industry is projected to continue growing at a rate of more than 20 percent each year, according to the National Association of Professional Employer Organizations (NAPEO).

But today, employee leasing firms do a lot more than just offer better health-care rates. They manage everything from compliance with state and federal regulations to payroll, unemployment insurance, W-2 forms and claims processing—saving clients time and money. Some firms have even branched out to offer “extras” such as pension and employee assistance programs.

While many business owners confuse employee leasing companies with temporary help businesses, the two organizations are quite different. Generally speaking, temporary help companies recruit employees and assign them to client businesses to help with short-term work overload or special projects on an as-needed basis, according to a spokesperson with the American Staffing Association. With leasing companies, on the other hand, a client business generally turns over all its personnel functions to an outside company, which will administer these operations and lease the employees back.
to the client.

According to the NAPEO, leasing services are contractual arrangements in which the leasing company is the employer of record

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**LOOK BEFORE YOU LEASE**

How do you decide if an employee leasing company is for you? The National Association of Professional Employer Organizations (NAPEO) suggests you look for the following:

- Services that fit your human resources needs. Is the company flexible enough to work with you?
- Banking and credit references. Look for evidence that the company's payroll taxes and insurance premiums are up-to-date. Request to see a certificate of insurance.
- Investigate the company's administrative competence. What experience does it have?
- Understand how employees' benefits are funded. Do they fit your workers' needs? Find out who the third-party administrator or carrier is and whether it is licensed if your state requires this.
- Make sure the leasing company is licensed or registered if required by your state.
- Ask for client and professional references, and call them.
- Review the agreement carefully and try to get a provision that permits you to cancel at short notice—say, 30 days.

For a list of NAPEO member organizations in your area, contact the NAPEO at (703) 836-0466 or write to 707 N. Saint Asaph St., Alexandria, VA 22314, or search their directory online at napeo.org/find/members.cfm.
for all or part of the client’s work force. Employment responsibilities are typically shared between the PEO and the client, allowing the client to retain essential management control over the work performed by the employees.

Meanwhile, the PEO assumes responsibility for a wide range of employer obligations and risks, among them paying and reporting wages and employment taxes out of its own accounts as well as retaining some rights to the direction and control of the leased employees. The client, on the other hand, has one primary responsibility: writing one check to the PEO to cover the payroll, taxes, benefits and administrative fees. The PEO does the rest.

Who uses PEOs? According to the NAPEO, small businesses make up the primary market for leasing companies since—due to economies of scale—they typically pay higher premiums for employee benefits. If an employee hurts his or her back and files a workers’ compensation claim, it could literally threaten the small business’s existence. With another entity as the employer of record, however, these claims are no longer the small-business owner’s problem. PEOs have also been known to help business owners avoid wrongful termination suits and negligent acts in the workplace, according to an NAPEO spokesperson.

Having to comply with a multitude of employment-related statutes, which is often beyond the means of smaller businesses, is another reason PEOs are so popular with entrepreneurs. According to the NAPEO, with a leasing company, you basically get the same type of human resources department you would get if you were a Fortune 500 firm.

Before hiring a professional employer organization, be sure to shop
around since not all offer the same pricing structures and services. Fees may be based on a modest percentage of payroll (2 to 8 percent) or on a per-employee basis. When comparing fees, consider what you would pay a full-time employee to handle the administrative chores the PEO will take off your hands. (For more information on what to look for, see “Look Before You Lease” on page 375).

Temporary Employees

If your business’s staffing needs are seasonal—for example, you need extra workers during the holidays or during busy production periods—then temporary employees could be the answer to your problem. If the thought of a temp brings to mind a secretary, think again. The services and skills temporary help companies offer small businesses have expanded.

Today, some companies specialize in medical services; others find their niche in professional or technical fields, supplying everything from temporary engineers, editors and accountants to computer programmers, bankers, lab support staff and even attorneys.

With many temporary help companies now offering specialized employees, many business owners have learned that they don’t have to settle for low skill levels or imperfect matches. Because most temporary help companies screen—and often train—their employees, entrepreneurs who choose this option stand a better chance of obtaining the quality employees they need for their business.

In addition to prescreened, pretrained individuals, temporary help companies offer entrepreneurs a slew of other benefits. For one, they help keep your overhead low. For another, they save you time and money on recruiting efforts. You don’t have to find, interview or relocate workers. Also, the cost of health and unemployment benefits, workers’ compensation insurance, profit-sharing, vacation time and other benefits doesn’t come out of your budget since many temporary
help companies provide these resources to their employees.

How do you find the temporary help company that best suits your needs—from light secretarial to specialized technical support? First, look in the Yellow Pages under “Employment Contractors—Temporary Help.” Call a few and ask some questions, including:

■ Do you have insurance? Look for adequate liability and workers’ compensation coverage to protect your company from a temporary worker’s claim.
■ Do you check on the progress of your temporaries?
■ How do you recruit your temporaries?
■ How much training do you give temporaries? (According to the American Staffing Association, nearly 90 percent of the tempo-

TEMPORARY TREATMENT

How do you make the most of your temporary workers once they’ve come on board? For one, don’t treat them any differently from your other employees. Introduce them to your full-time workers as people who are there to help you complete a project, to relieve some overtime stress, or to bring in some skills you might not have in-house.

And don’t expect temporary workers to be so well-trained that they know how to do all the little (but important) things, such as operating the copier or answering the phone. Spend some time giving them a brief overview of these things, just as you would any new employee.

One strategy for building a better relationship with your temporary workers is to plan ahead as much as possible so you can use the same temporaries for an extended period of time—say, six months. Or try to get the same temporaries back when you need help again. This way, they’ll be more productive, and you won’t have to spend time retraining them.
STAFF SMARTS

■ What benefits do you offer your temporaries?
■ Should a temporary fail to work out, does the firm offer any guarantees? Look for a firm that can provide a qualified temp right away.
■ How quickly can you provide temporaries? (When you need one, you’ll usually need one right away.)

Also ask the company to provide references. Contact references and ask their opinions of the temporary help company’s quality level, reliability, reputation, service and training.

Before securing the services of a temporary help company, also consider your staffing needs. Do you need a part- or full-time temporary employee? What are your expectations? Clearly defining your needs helps the company understand and provide what you are looking for.

Defining the expected duration of your needs is also very important. While many entrepreneurs bring on a temporary worker for just that—temporary work—some may eventually find they would like to hire the worker full time. Be aware that, at this point, some temporary help firms require a negotiated fee for “stealing” the employee away from them. Defining your needs upfront can help you avoid such penalties.

Because a growing number of entrepreneurs purposely use temporary workers part time to get a feel for whether they should hire them full time, many temporary help companies have begun offering an option: temporary-to-full-time programs, which allow the prospective employer and employee to evaluate each other. Temporary-to-full-time programs match a temporary worker who has expressed an interest in full-time work with an employer who has like interests.

Need to find an employee for your specific industry? Try a trade association’s website, many of which have classified sections or job boards. These sites allow you to post job listings at a low cost and receive responses from a very targeted pool of candidates.
The client is encouraged to make a job offer to the employee within a predetermined time period, should the match seem like a good one. According to the American Staffing Association, 74 percent of temporary workers decide to become temporary employees because it’s a way to get a full-time job.

Last, but not least, before contracting with a temporary help company, make sure it is a member of a trade association such as the American Staffing Association. This means: 1) The company has agreed to abide by a code of ethics and good practices, 2) it is in the business for the long haul—meaning it has invested in its industry by becoming a member of its trade association, and 3) it has access to up-to-date information on trends that impact its business.

**Part-Time Personnel**

Another way to cut overhead costs and benefits costs while gaining flexibility is by hiring part-time workers. Under current law, you are not required to provide part-timers with medical benefits.

What are the other benefits to you? By using permanent part-timers, you can get more commitment than you’d get from a temp but more flexibility than you can expect from a nine-to-fiver. In some industries, such as fast food, retail and other businesses that are open long hours, part-timers are essential to fill the odd hours during which workers are needed.

A traditional source of part-time employees is students. They typically are flexible, willing to work odd hours and do not require high wages. High school and college kids like employers who let them fit their work schedule to the changing demands of school.

Although students are ideal for many situations, there are potential drawbacks to be aware of. For one thing, a student’s academic or social demands may impinge on your scheduling needs. Some students feel that a manicure or a tennis game is reason enough to change their work schedules. You’ll need to be firm and set some standards for what is and is not acceptable.
Students are not the only part-timers in town, however. One often-overlooked source of employees is retired people. Often, seniors are looking for a way to earn some extra money or fill their days. Many
of these people have years of valuable business experience that could be a boon to your company.

Seniors offer many of the advantages of other part-time employees without the flakiness that sometimes characterizes younger workers. They typically have an excellent work ethic and can add a note of stability to your organization. If a lot of your customers are seniors, they may prefer dealing with employees their own age.

Parents of young children, too, offer a qualified pool of potential part-time workers. Many stay-at-home moms and dads would welcome the chance to get out of the house for a few hours a day. Often, these workers are highly skilled and experienced.

Finally, one employee pool many employers swear by is people with disabilities. Workers from a local shelter or nonprofit organization can excel at assembling products or packaging goods. In most cases, the charity group will work with you to oversee and provide a job coach for the employees. To find disabled workers in your area, contact the local Association of Retarded Citizens office or the Easter Seals Society.

**Outsourcing Options**

One buzzword you are increasingly likely to hear is “outsourcing.” Simply put, this refers to sending certain job functions outside a company instead of handling them in-house. For instance, instead of hiring an in-house bookkeeper, you might outsource the job to an independent accountant who comes in once a month or does all the work off-site.

More and more companies large and small are turning to outsourcing as a way to cut payroll and overhead costs. Done right, outsourcing
can mean you never need to hire an employee at all!

How to make it work? Make sure the company or individual you use can do the job. That means getting (and checking) references. Ask former or current clients about their satisfaction. Find out what industries and what type of workload the firm or individual is used to handling. Can you expect your deadlines to be met, or will your small business’s projects get pushed aside if a bigger client has an emergency?

Make sure you feel comfortable with who will be doing the work and that you can discuss your concerns and needs openly. Ask to see samples of work if appropriate (for example, if you’re using a graphic design firm).

If your outsourcing needs are handled by an individual, you’re dealing with an independent contractor. The IRS has stringent rules regulating exactly who is and is not considered an independent contractor. The risk: If you consider a person an independent contractor and the IRS later reclassifies him or her as an employee, you could be liable for that person’s Social Security taxes and a wide range of other costs and penalties.

For more on independent contractors, see Chapter 41. If you’re still in doubt, it always pays to consult your accountant. Making a mistake in this area could cost you big.
Once you have great employees on board, how do you keep them from jumping ship? One way is by offering a good benefits package.

Many small-business owners mistakenly believe they cannot afford to offer benefits. But while going without benefits may boost your bottom line in the short run, that penny-wise philosophy could strangle your business’s chance for long-term prosperity. “There are certain benefits good employees feel they must have,” says Ray Silverstein, founder of PRO, President’s Resource Organization, a nationwide network of peer group forums.

Heading the list of must-have benefits is medical insurance. But many job applicants also demand a retirement plan, disability insurance and more. Tell these applicants no benefits are offered, and top-flight candidates will often head for the door.
The positive side to this coin: Offer the right benefits, and your business may just jump-start its growth. Give employees the benefits they value, and they’ll be more satisfied, miss fewer workdays, be less likely to quit, and have a higher commitment to meeting the company’s goals. Research shows that when employees feel their benefits needs are satisfied, they’re more productive.

**Benefit Basics**

The law requires employers to provide employees with certain benefits. You must:

- Give employees time off to vote, serve on a jury and perform military service
- Comply with all workers’ compensation requirements (see Chapter 22)
- Withhold FICA taxes from employees’ paychecks and pay your own portion of FICA taxes, providing employees with retirement and disability benefits
- Pay state and federal unemployment taxes, thus providing benefits for unemployed workers
- Contribute to state short-term disability programs in states where such programs exist
- Comply with the federal Family and Medical Leave Act (see “Family Matters” on page 388)

You are not required to provide:

- Retirement plans
- Health plans (except in Hawaii)
- Dental or vision plans
- Life insurance plans
- Paid vacations, holidays or sick leave
In reality, however, most companies offer some or all of these benefits to stay competitive.

Most employers provide paid holidays for Christmas Day, New Year’s Day, Memorial Day, Independence Day, Labor Day and Thanksgiving Day. Many employers also either allow their employees to take time off without pay or let them use vacation days for religious holidays.

Most full-time employees will expect one to two weeks’ paid vacation time per year. In explaining your vacation policy to employees, specify how far in advance requests for vacation time should be made, and whether in writing or verbally.

There are no laws that require employers to provide funeral leave, but most allow two to four days’ leave for deaths of close family members. Companies that don’t do this generally allow employees to use some other form of paid leave, such as sick days or vacation.

**Legally Speaking**

Complications quickly arise as soon as a business begins offering benefits, however. That’s because key benefits such as health insurance and retirement plans fall under government scrutiny, and it is very easy to make mistakes in setting up a benefits plan.

And don’t think nobody will notice. The IRS can discover in an audit that what you are doing does not comply with regulations. So can the U.S. Department of Labor, which has been beefing up its audit activities of late. Either way, a goof can be very expensive. You can lose any tax benefits you have enjoyed, retroactively, and penalties can also be imposed.

The biggest mistake? Leaving employees out of the plan. Examples range from exclusions of part-timers to failing to extend benefits to clerical and custodial staff. A rule

*AHA!*

Want a quick way to save on workers’ comp insurance premiums? Some companies offer a 5 percent discount for simply having a written policy prohibiting drugs in the workplace. It’s a cheap trick to save big. Ask your workers’ comp provider for details.
of thumb is that if one employee gets a tax-advantaged benefit—meaning one paid for with pretax dollars—the same benefit must be extended to everyone. There are loopholes that may allow you to exclude some workers, but don’t even think about trying this without expert advice.

Such complexities mean it’s good advice never to go this route alone. You can cut costs by doing preliminary research yourself, but before setting up any benefits plan, consult a lawyer or a benefits consultant. An upfront investment of perhaps $1,000 could save you far more money down the road by helping you sidestep potholes.

**Expensive Errors**

Providing benefits that meet employee needs and mesh with all the laws isn’t cheap—benefits probably add 30 to 40 percent to base pay for
most employees. That makes it crucial to get the most from these dollars. But this is exactly where many small businesses fall short, because often their approach to benefits is riddled with costly errors that can get them in financial trouble with their insurers or even with their own employees. The most common mistakes:

- **Absorbing the entire cost of employee benefits.** Fewer companies are footing the whole benefits bill these days. The size of employee contributions varies from a few dollars per pay period to several hundred dollars monthly, but one plus of any co-payment plan is that it eliminates employees who don’t need coverage. Many employees are covered under other policies—a parent’s or spouse’s, for instance—and if you offer insurance for free, they’ll take it. But even small co-pay requirements will persuade many to skip it, saving you money.

- **Covering nonemployees.** Who would do this? Lots of business owners want to buy group-rate coverage for their relatives or friends. The trouble: If there is a large claim, the insurer may want to investigate. And that investigation could result in disallowance of the claims, even cancellation of the whole policy. Whenever you want to cover somebody who might not qualify for the plan, tell the insurer or your benefits consultant the truth.

- **Sloppy paperwork.** In small businesses, administering benefits is often assigned to an employee who wears 12 other hats. This employee really isn’t familiar with the technicalities and misses a lot of important details. A common goof: not enrolling new employees in plans during the open enrollment period. Most plans provide a fixed time period for open enrollment. Bringing an employee in later requires proof of insurability. Expensive litigation is sometimes the result. Make sure the employee overseeing this task stays current with the paperwork and knows that doing so is a top priority.

- **Not telling employees what their benefits cost.** “Most employees don’t appreciate their benefits, but that’s because nobody ever
What does COBRA mean to you? No, it’s not a poisonous snake coming back to bite you in the butt. The Consolidated Omnibus Budget Reconciliation Act (COBRA) extends health insurance coverage to employees and dependents beyond the point at which such coverage traditionally ceases.

COBRA allows a former employee after he or she has quit or been terminated (except for gross misconduct) the right to continued coverage under your group health plan for up to 18 months. Employees’ spouses can obtain COBRA coverage for up to 36 months after divorce or the death of the employee, and children can receive up to 36 months of coverage when they reach the age at which they are no longer classified as dependents under the group health plan.

The good news: Giving COBRA benefits shouldn’t cost your company a penny. Employers are permitted by law to charge recipients 102 percent of the cost of extending the benefits (the extra 2 percent covers administrative costs).

The federal COBRA plan applies to all companies with more than 20 employees. However, many states have similar laws that pertain to much smaller companies, so even if your company is exempt from federal insurance laws, you may still have to extend benefits under certain circumstances. Contact the U.S. Department of Labor to determine whether your company must offer COBRA or similar benefits, and the rules for doing so.

tells them what the costs are,” says PRO’s Silverstein. Many experts suggest you annually provide employees with a benefits statement that spells out what they are getting and at what cost. A simple rundown of the employee’s individual benefits and
what they cost the business is very powerful.

- Giving unwanted benefits. A work force composed largely of young, single people doesn’t need life insurance. How to know what benefits employees value? You can survey employees and have them rank benefits in terms of desirability. Typically, medical and financial benefits, such as retirement plans, appeal to the broadest cross-section of workers.

If workers’ needs vary widely, consider the increasingly popular “cafeteria plans,” which give workers lengthy lists of possible benefits plus a fixed amount to spend.

**Health Insurance**

Health insurance is one of the most desirable benefits you can offer employees. There are several basic options for setting up a plan:

- A *traditional indemnity plan, or fee for service*. Employees choose their medical care provider; the insurance company either pays the provider directly or reimburses employees for covered amounts.

- Managed care. The two most common forms of managed care are the Health Maintenance Organization (HMO) and the Preferred Provider Organization (PPO). An HMO is essentially a prepaid health-care arrangement, where employees must use doctors employed by or under contract to the HMO and hospitals approved by the HMO. Under a PPO, the insurance company negotiates discounts with the physicians and the hospitals. Employees choose doctors from an approved list, then usually pay a set amount per office visit (typically $10 to $25); the insurance company pays the rest.
- **Self-insurance.** When you absorb all or a significant portion of a risk, you are essentially self-insuring. An outside company usually handles the paperwork, you pay the claims, and sometimes employees help pay premiums. The benefits include greater control of the plan design, customized reporting procedures and cash-flow advantages. The drawback is that you are liable for claims, but you can limit liability with “stop loss” insurance—if a claim exceeds a certain dollar amount, the insurance company pays it.

- **Health savings accounts.** HSAs allow workers with high-deductible health insurance to make pretax contributions to cover health-care costs. A high-deductible plan is one that has at least a $3,050 annual deductible for self-only coverage and a $6,150 deductible for family coverage in 2010. Furthermore, annual out-of-pocket costs paid under the plan must be limited to $5,950 for individuals and $11,900 for families.

  Employer contributions to HSAs are tax deductible, excludable from gross income, and are not subject to employment taxes. Employees can use these tax-free withdrawals to pay for most medical expenses not covered by the high-deductible plan.

### Cost Containment

The rising costs of health insurance have forced some small businesses to cut back on the benefits they offer. Carriers that write policies for small businesses tend to charge very high premiums. Often, they demand extensive medical information about each employee. If anyone in the group has a pre-existing condition, the carrier may refuse to write a policy. Or if someone in the company becomes seriously ill, the carrier may cancel the policy the next time it comes up for renewal.

Further complicating matters, states are mandating certain health-care benefits so that if an employer offers a plan at all, it has to include certain types of coverage. Mandated benefits increase the cost of basic health coverage from less than 20 percent to more than 50 percent,
depending on the state, according to a recent analysis from the Council for Affordable Health Insurance. Employers who can’t afford to comply often have to cut insurance altogether.

The good news: Some states have tried to ease the financial burden by passing laws that offer incentives to small-business owners who provide their employees with coverage. There are also ways to cut costs without cutting into your employees’ insurance plan. A growing number of small businesses band together with other entrepreneurs to enjoy economies of scale and gain more clout with insurance carriers.

Many trade associations offer health insurance plans for small-business owners and their employees at lower rates. Your business may have only five employees, but united with the other, say, 9,000 association members and their 65,000 employees, you have substantial clout. The carrier issues a policy to the whole association; your business’s coverage cannot be terminated unless the carrier cancels the entire association.

Associations are able to negotiate lower rates and improved coverage because the carrier doesn’t want to lose such a big chunk of business. This way, even the smallest one-person company can choose from the same menu of health-care options that big companies enjoy.

Associations aren’t the only route to take. In some states, business owners or groups have set up health insurance networks among businesses that have nothing in common but their size and their location. Check with your local chamber of commerce to find out about such programs in your area.

Some people have been ripped off by unscrupulous organizations supposedly peddling “group” insurance plans at prices 20 to 40 percent below the going rate. The problem: These plans don’t pay all

Small-business owners can evaluate their options and generate a quote at no charge at BenefitMall.com (benefitmall.com). This site also offers electronic brochures, training videos and other useful information so you can know what you’re looking at when you compare plans for your business.
policyholders’ claims because they’re not backed by sufficient cash reserves. Such plans often have lofty-sounding names that suggest a larger association of small employers.

How to protect yourself from a scam? Here are some tips:

■ **Compare prices.** If it sounds too good to be true, it probably is. Ask for references from other companies that have bought from the plan. How quick was the insurer in paying claims? How long has the reference dealt with the insurer? If it’s less than a few months, that’s not a good sign.

■ **Check the plan’s underwriter.** The underwriter is the actual insurer. Many scam plans claim to be administrators for underwriters that really have nothing to do with them. Call the underwriter’s headquarters and the insurance department of the state in which it’s registered to see if it is really affiliated with the plan. To check the underwriter’s integrity, ask your state’s insurance department for its “A.M. Best” rating, which grades companies according to their ability to pay claims. Also ask for its “claims-paying ability rating,” which is monitored by services like Standard & Poor’s. If the company is too new to be rated, be wary.

■ **Make sure the company follows state regulations.** Does the company claim it’s exempt? Check with your state’s insurance department.

■ **Ask the agent or administrator to show you what his or her commission, advance or administrative cost structure is.** Overly generous commissions can be a tip-off; some scam operations pay agents up to 500 percent commission.

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**WARNING**

Beware the practice of “cherry picking.” Health insurance carriers often woo companies with young, healthy employees away from their existing policies by promising substantially lower rates. All too often, however, those rates rise dramatically after the first year. Sticking with one carrier rather than renegotiating your health insurance coverage every year saves time and effort. In the end, that’s money, too.
Get help. Ask other business owners if they have dealt with the company. Contact the Better Business Bureau to see if there are any outstanding complaints. If you think you’re dealing with a questionable company, contact your state insurance department or your nearest Labor Department Office of Investigations.

Retirement Plans

A big mistake some business owners make is thinking they can’t fund a retirement plan and put profits back into the business. But fewer than half the employees at small companies participate in retirement plans. And companies that do offer this benefit report increased employee retention and happier, more efficient workers. Also, don’t forget about yourself: Many business owners are at risk of having insufficient funds saved for retirement.

To encourage more businesses to launch retirement plans, the Credit for the Small Employer Pension Plan provides a tax credit for costs associated with starting a retirement plan. According to Jeffrey S. Kahn, an employee benefits attorney with Greenberg Traurig in Boca Raton, Florida, you must follow four rules to be eligible for the credit.

1. The plan must be a qualified retirement plan, such as pension, profit sharing, stock bonus or qualified annuity plan; e.g., a 401(k), Simplified Employee Pension (SEP) plan, or SIMPLE.
2. Employers with 100 or fewer employees who received at least $5,000 in compensation for the preceding year are eligible. Part-time employees must be considered part of this group.
3. The plan cannot just be for an owner/employee. It must also cover at least one nonhighly compensated employee, who makes $110,000 or less a year and is not an owner of the company.
4. The employer is not allowed to have sponsored a pension plan during the three years preceding the new plan’s start date.

The credit is a maximum of $500 in the year the plan starts and $500 in each of the next two years, assuming at least $1,000 of expenses are incurred in both years. Expenses cannot be lumped together.
For more information, see IRS Form 8881, *Credit for Small Employer Pension Plan Start-Up Costs*.

Don’t ignore the value of investing early. If, starting at age 35, you invested $3,000 each year with a 14 percent annual return, you would have an annual retirement income of nearly $60,000 at age 65. But $5,000 invested at the same rate of return beginning at age 45 only results in $30,700 in annual retirement income. The benefit of retirement plans is that savings grow tax-free until you withdraw the funds—typically at age 59. If you withdraw funds before that age, the withdrawn amount is fully taxable and also subject to a 10 percent penalty. The value of tax-free investing over time means it’s best to start right away, even if you start with small increments.

Besides the long-term benefit of providing for your future, setting up a retirement plan also has an immediate payoff—cutting your taxes.

Here is a closer look at a range of retirement plans for yourself and your employees.

**Individual Retirement Account (IRA)**

An IRA is a tax-qualified retirement savings plan available to anyone who works and/or the person’s spouse, whether the individual is an employee or a self-employed person. One of the biggest advantages of these plans is that the earnings on your IRA grow on a tax-deferred basis until you start withdrawing the funds. Whether your contribution to an IRA is deductible will depend on your income level and whether you’re covered by another retirement plan at work.

Kahn of Greenberg Traurig says you can’t contribute to a traditional IRA after age 70½, and you must begin distributions by April 1 following the year you reach age 70½. There also is a 10 percent penalty for funds withdrawn (with limited exceptions) before age 59.
You also may want to consider a Roth IRA. While contributions are not tax-deductible, withdrawals you make at retirement will not be taxed. The contribution limit in 2010 for both single and joint filers was $5,000 per person or $6,000 for individuals aged 50 and older. After that, contributions are indexed to inflation.

According to Kahn, a single person may contribute to a Roth IRA with an adjusted gross income (AGI) of under $95,000, with benefits phasing out completely at $110,000. For married couples filing jointly, contributions are possible with an AGI less than $150,000, with benefits being eliminated at $160,000. These limitations are also adjusted periodically.

The hot topic for 2010 was the Roth conversion. Prior to January 1, 2010, a taxpayer could not convert a regular IRA to a Roth IRA if his or her modified AGI exceeded $100,000. In addition, married taxpayers had to file a joint return to qualify. Kahn adds that the $100,000 limit has now been removed, and married taxpayers no longer need to file a joint return to qualify.

Furthermore, if the taxpayer elects, he or she does not need to include the IRA conversion income in 2010; instead, the taxpayer can pick up 50 percent in 2011 and 50 percent in 2012, which may result in some tax savings. Consult your tax lawyer or accountant to see if this option is right for you.

There’s also a retirement savings option known as a Roth 401(k) to consider. It is a 401(k) plan that allows employees to designate all or part of their elective deferrals as qualified Roth 401(k) contributions. Qualified Roth 401(k) contributions are made on an after-tax basis, just like Roth IRA contributions. Employees’ contributions and earnings

Want to know how you’re doing on your retirement savings plan? Check out CNN Money’s online retirement planning calculators at cgi.money.cnn.com/tools. They provide an easy, accurate way to help you determine how much you’ll need and what your chances are of getting there. And if it looks like you’ll fall short, suggestions are provided for improving your plan. Best part—it’s free!
are free from federal income tax when plan distributions are taken. Unless extended, this option will expire at the end of 2011.

Regardless of income level, Kahn says you can qualify for a deductible IRA as long as you do not participate in an employer-sponsored retirement plan, such as a 401(k). If you are in an employer plan, you can qualify for a deductible IRA if you meet the income requirements. Keep in mind that it’s possible to set up or make annual contributions to an IRA any time you want up to the date your federal income tax return is due for that year, not including extensions. The contribution amounts for deductible IRAs are the same as for Roth IRAs.

For joint filers, even if one spouse is covered by a retirement plan, the spouse who is not covered by a plan may make a deductible IRA contribution if the couple’s adjusted gross income is $167,000 or less. Like the Roth IRA, the amount you can deduct is decreased in stages above that income level and is eliminated entirely for couples with incomes over $177,000. Nonworking spouses and their working partners can contribute up to $10,000 to IRAs ($5,000 each), provided the working spouse earns at least $10,000. It’s possible to contribute an additional $1,000 for each spouse who is at least 50 years old at the end of the year, as long as there is the necessary earned income. For example, two spouses over 50 could contribute a total of $12,000 if there is at least $12,000 of earned income.

As you can see, the rules concerning IRA and Roth IRAs are quite complex and can change from year to year. Be sure to consult with a qualified professional to make sure you are in compliance.

**Savings Incentive Match Plan For Employees (SIMPLE)**

SIMPLE plans are one of the most attractive options available for small-business owners. With these plans, you can choose to use a 401(k) or an IRA as your retirement plan.

A SIMPLE plan is just that—simple to administer. This type of retirement plan doesn’t come with a lot of paperwork and reporting requirements.
MANUAL LABOR

Sooner or later, every entrepreneur needs to write a manual. Employee policy manuals, procedures manuals and safety manuals are just a few of the more important ones.

Even if you only have one employee, it’s not too soon to start putting policies in writing. Doing so now—before your staff grows—can prevent bickering, confusion and lawsuits later when Steve finds out you gave Joe five sick days and he only got four.

How to start? As with everything, begin by planning. Write a detailed outline of what you want to include.

As you write, focus on making sure the manual is easy to read and understand. Think of the simplest, shortest way to convey information. Use bullet points and numbered lists, where possible, for easier reading.

A lawyer or a human resources consultant can be invaluable throughout the process. At the very least, you’ll want your attorney to review the finished product for loopholes.

Finally, ensure all new employees receive a copy of the manual and read it. Include a page that employees must sign, date and return to you stating they have read and understood all the information in the manual and agree to abide by your company’s policies. Maintain this in their personnel file.

You can set up a SIMPLE IRA only if you have 100 or fewer employees who have received $5,000 or more in compensation from you in the preceding year. Generally, the employer must make contributions to the plan by either matching each participating employee’s
contribution, dollar for dollar, up to 3 percent of each employee’s pay, or by making an across-the-board 2 percent contribution for all employees, even if they don’t participate in the plan, which can be expensive.

The maximum amount each employee can contribute to the plan is $10,000 for 2006. After that, the amount will be indexed for inflation. Participants in a SIMPLE IRA who are age 50 or over at the end of the calendar year can also make a catch-up contribution of an additional $2,500 in 2006.

**Simplified Employee Pension (SEP) Plan**

As its name implies, this is the simplest type of retirement plan available. Essentially, a SEP is a glorified IRA that allows you to contribute a set percentage up to a maximum amount each year. Paperwork is minimal, and you don’t have to contribute every year. And regardless of the name, you don’t need employees to set one up.

If you do have employees—well, that’s the catch. Employees do not make any contributions to SEPs. Employers must pay the full cost of the plan, and whatever percentage you contribute for yourself must be applied to all eligible employees. Generally, the maximum contribution is 25 percent of an employee’s annual salary (up to $245,000) or $49,000, whichever is less.

As your company grows, you may want to consider other types of retirement plans, such as Keogh or 401(k) plans.

**Where to Go**

With so many choices available, it’s a good idea to talk to your accountant about which type of plan is best for you. Once you know what you want, where do you go to set up a retirement plan?
Banks, investment companies, full-service or discount brokers, and independent financial advisors can all help you set up a plan that meets your needs. Many of these institutions also offer self-managed brokerage accounts that let you combine investments in mutual funds, stocks, bonds and certificates of deposit (CDs).

**Low-Cost Benefits**

In addition to the standard benefits discussed above, there are plenty of benefits that cost your company little or nothing but reap huge rewards in terms of employee satisfaction and loyalty. Consider these ideas:

- **Negotiate discounts with local merchants for your employees.** Hotels, restaurants and amusement parks may offer discounts on their various attractions, including lodging and food, through corporate customer programs. Warehouse stores, such as Sam’s Club, allow discounted membership to employees of their corporate members. Movie theaters provide reduced-rate tickets for companies’ employees. Don’t forget to offer employees free or discounted prices on your own company products and services.

- **Ask a local dry cleaner for free pickup and delivery of your employees’ clothes.** Or ask a garage for free transportation to and from work for employees having their cars serviced there. Many businesses are willing to provide this service to capture—and keep—new customers.

- **Offer free lunchtime seminars to employees.** Health-care workers, financial planners, safety experts, attorneys and other professionals will often offer their speaking services at no charge. Education is beneficial for both your employees and your business.

- **Offer supplemental insurance plans that are administered through payroll but are paid for by the employee.** Carriers of health, life, auto and accident insurance typically offer these plans at a lower rate to employers, so everybody benefits.

- **Offer a prepaid legal services plan administered through payroll but paid for by the employee.** Like insurance, the purpose of the prepaid
legal service is to provide protection against the emotional and financial stress of an employee’s legal problems. Such services include phone consultations regarding personal or business-related legal matters, contract and document review, preparation of wills, legal representation in cases involving motor vehicle violations, trial defense services, and IRS audit legal services.

The employer deducts the monthly service fee from the paychecks of those employees who want to take advantage of the service. Typical fees range from $9 to $12 per month per employee and cover most routine and preventive legal services at no additional cost. More extensive legal services are provided at a lower rate when offered in this manner, saving employees money.

■ *How about an interest-free computer loan program?* Making it easier for employees to purchase computers for their personal use increases the technical productivity of employees on the job. The employee chooses the computer and peripherals based on the employer’s parameters. (For example, the computer must be a Macintosh, and the entire package may not exceed $3,000.) The company purchases the system, allows the employee to take it home, and deducts the payments from his or her paycheck. Although there’s some initial capital outlay, it is recouped quickly. Any computer experience an employee can gain at home will most likely enhance his or her proficiency in the workplace.

■ *Let employees purchase excess inventory from your business at a significant discount via sample sales or employee auctions.* Arrange these purchases
in conjunction with regularly scheduled companywide “yard sales” for employees to buy and sell their personal belongings.

One of the most appreciated but most overlooked benefits is membership in a credit union. There are some 6,000 well-established, state-chartered credit unions throughout the United States and Canada that accept startup businesses as members—at no charge.

The benefits to your employees are threefold: Most likely they’ll increase their savings rates (especially if you offer automatic payroll deduction), they’ll have access to lower loan rates, and they’ll pay lower fees—if any—for services. Services credit unions frequently offer include:

- Automatic payroll deductions
- Individual retirement accounts
- Savings certificates
- Personal and auto loans
- Lines of credit
- Checking accounts
- Christmas club accounts

Only state-chartered credit unions are allowed to add new companies to their membership rosters. To find a credit union that will accept your company, call your state’s league of credit unions. You can also write to the National Credit Union Administration, 1775 Duke St., Alexandria, VA 22314-3428, or call (703) 518-6300 for more information, or visit their website at ncu.gov for a list of consumer resources.

When comparing credit unions, get references and check them. Find out how communicative and flexible the credit union is. Examine the accessibility. Are there ATMs? Is there a location near your business? Consider the end users—your employees.

Once your company is approved, designate one person to be the primary liaison with the credit union. That person will maintain information about memberships as well as enrollment forms and loan applications.
Kick things off by asking a credit union representative to conduct on-site enrollment and perhaps return periodically for follow-up or new sign-ups.

**Employee Policies**

Now that you have employees, you’ll need to set policies on everything from pay rates to safety procedures. Many of these policies are regulated by federal and state laws. Here’s what you need to know.

**Paying Employees**

There are many state and federal laws that regulate the paying of employees, including the calculation of overtime, minimum wage, frequency of payment, and rules for payment upon termination. Because your business may be subject to both state and federal laws (the primary federal law being the Fair Labor Standards Act, or FLSA), which are often quite different and conflicting, you should check with the applicable government agencies, your local chamber of commerce, and appropriate financial and legal experts to determine which laws apply and how to correctly apply them.

**Nonexempt and Exempt Employees**

Under the FLSA, all employees are classified as either exempt or nonexempt. A nonexempt employee is entitled to a minimum wage and overtime pay as well as other protections set forth in the FLSA.

Exempt employees are not protected under these rules. However, if you wish to classify an employee as exempt, you must pay him or her a salary. Anyone paid on an hourly basis is automatically considered nonexempt; however, there can be nonexempt employees who are paid a salary.
If salary is not the determining factor, what factors determine whether an employee is exempt? Under FLSA and most state laws, an exempt employee is one whose job responsibilities, more than 50 percent of the time, involve the regular exercise of discretionary powers and can be characterized as:

- **Executive:** usually a manager who directs the work of other employees and has the authority to make recommendations affecting the status of those employees (e.g., hiring, firing, promotions, etc.)
- **Administrative:** a person who performs office or nonmanual work under general supervision and which primarily involves special assignments or requires specialized training, experience or education
- **Professional:** a person who is engaged in a recognized profession such as medicine or law or in a field of learning that is specialized and predominantly intellectual or creative.

There are additional exempt categories for more specialized employees, such as professional artist, computer professional or outside salesperson. In addition, your business may be subject to both federal and often more restrictive state laws governing the exempt status of employees. In those instances, an employee must meet the requirements for exemption under both federal and state law.

**Tip Credits**

States sometimes set minimum wage laws above or below the federal minimum wage standard. If your business is subject to both state and federal wage laws, you’ll have to pay the higher of the two.
Under federal law (the Small Business Job Protection Act of 1996), you may apply tips received by an employee against the employee's minimum hourly wage, provided that: 1) the employee makes at least $30 per month in tips, 2) the employer pays at least 50 percent of the federal minimum wage, 3) the employee has been informed of the applicable law governing minimum wage and tip credits, and 4) the employee retains all the tips received by him or her (unless there's tip pooling with other employees). However, if the hourly wage paid by the employer when added to the tip credit is less than the minimum wage, the employer must make up the difference.

Once again, you will need to make sure there are no contrary state laws governing if and when you can use tip credits to meet your minimum wage obligations. For example, California law requires a higher minimum wage than federal law and thus applies to California employers and employees. Because California law prohibits crediting tips against minimum wage payments, tip credits are unavailable in California. Tip credit is also not allowed in Alaska. For a table of state laws on tip credits, see dol.gov.

**Overtime Requirements**

Excluding certain industry-specific exceptions, federal and state law requires that nonexempt employees be paid overtime. Under the FLSA, nonexempt employees must be paid one and a half times their normal rate of pay for hours worked in excess of 40 hours during a workweek. A workweek is defined as seven consecutive 24-hour periods. Although a workweek can begin on any day, it must be fixed for that employee and cannot be changed so as to evade applicable overtime laws. Most states also have their own overtime laws, and if they are more favorable to employees, those are the ones you must follow. For example, under California law, employees who work more than eight hours during a single day are entitled to overtime, even if they do not work more than 40 hours during a given workweek (the federal requirement).
Remember, nonexempt employees can be salaried as well as hourly. So don’t make the mistake of assuming that just because an employee is salaried, he or she is exempt from overtime.

**Workplace Safety**

Why worry about safety? Because failing to do so could literally destroy your business. Besides the human loss, workplace accidents cost money and time. You could be liable for substantial penalties that could wipe out your business’s cash flow. The Occupational Safety and Health Administration (OSHA) can assess huge fines for willful violations of safety rules, especially when they could result in death or serious physical harm. In 2005, BP Products North America Inc. had to pay $21 million in penalties for safety and health violations after a fatal explosion at its plant in Texas City, Texas, that killed 15 workers and injured more than 170. So paying attention to safety is definitely worth your while.

**OSHA Regulations**

All employers, whether they have one employee or 1,000, are subject to federal OSHA requirements. However, in states where a federally certified plan has been adopted, the state plan governs. State standards must be at least as strict as the federal standards.

Businesses that use nonemployee workers, such as independent contractors or volunteers, are not subject to OSHA. Workers are considered employees under OSHA if you:

- Control the actions of the employee
Have the power to control the employee’s actions

Are able to fire the employee or modify employment conditions

Small employers (with ten or fewer employees) don’t have to report injuries and illnesses. However, that doesn’t mean they are exempt from OSHA regulations.

**Compliance with OSHA**

The first step in complying with OSHA is to learn the published safety standards. The standards you must adhere to depend on the industry you’re in.

Every business has to comply with general industry standards, which cover things like safety exits, ventilation, hazardous materials, personal protective equipment like goggles and gloves, sanitation, first aid and fire safety.

Under OSHA, you also have a general duty to maintain a safe workplace, which covers all situations for which there are published standards. In other words, just because you complied with the standards that specifically apply to your industry doesn’t mean you’re off the hook. You also need to keep abreast of possible hazards from new technology or rare situations the government may have thought of and published standards for.

Sound exhausting? Help is available. Start with your insurance carrier. Ask if an insurance company safety specialist can visit your business and make recommendations. Insurers are typically more than happy to do this since the safer your business is, the fewer accident claims you’ll file. The government can also help you set up a safety program. Both OSHA and state safety organizations conduct safety consultation programs. Check to see what programs your state safety department offers, too. You’ll find local offices of government agencies as well as state organizations listed in the government pages of your phone book,

*The Institute for a Drug-Free Workplace is a nonprofit association that provides information, education and advocacy for companies concerned about controlling illicit drug and alcohol use at work. Learn about drug-testing laws, read model employer guides and more at drugfreeworkplace.org.*
usually under “Labor Department,” “Department of Commerce” or a similar name.

Don’t forget to tap into the resources of your chamber of commerce, industry trade association and other business groups. Many offer safety seminars and provide safety training literature free or for a nominal charge. In addition, there are private consultants who can help small businesses set up safety programs that meet OSHA regulatory standards. Your lawyer may be able to recommend a good one in your area.

**Put It in Writing**

When you have a safety program in place, put it in writing with a safety manual (see “Manual Labor” on page 399). Your safety manual should explain what to do in the event of a fire, explosion, natural disaster or any other catastrophe your business may face. Make sure you keep well-stocked fire extinguishers and first-aid kits at convenient locations throughout your building. Also make sure employees know where these are located and how to use them. In addition to emergency procedures, your safety manual should explain proper procedures for performing any routine tasks that could be hazardous. Ask employees for input here; they are closest to the jobs and may know about dangerous situations that aren’t obvious to you.

Finally, have an insurance professional, a government representative and an attorney review the finished manual. You’re putting your company’s commitment to safety on the line, so make sure you get it right.
Emphasize the importance of safety with meetings, inspections and incentive programs. These don’t have to cost a lot (or anything). Try establishing a “Safe Employee of the Month” award or giving a certificate for a free dinner for winning suggestions on improving safety.

**Discriminatory Treatment?**

Although sexual harassment is one of the biggest issues facing employers these days, it’s not the only type of discrimination you need to be concerned about. Under the Civil Rights Act of 1991, employees who believe they were victims of job discrimination due to race, religion, sex or disability are entitled to a trial by jury.

While companies with fewer than 15 employees are generally exempt from federal discrimination laws, most states have their own laws prohibiting discrimination, which, in addition to protecting a wider range of categories of employees, include smaller businesses within their scope and procedural and evidentiary standards more favorable to claimants. Apart from the tendency of some juries to award plaintiffs disproportionately high monetary damages, litigation in this area of the law can be extremely costly, even if you prevail. One attorney estimates the average legal fees for defense in a sexual harassment suit, regardless of the verdict, are upwards of $75,000.

Concerns over discrimination are more important than ever in today’s increasingly diverse business world. If you run a small business, chances are you will be dealing with employees from many cultures, races and age groups. How can you keep things running harmoniously and protect your business from legal risk? The best policy is to make sure that everyone in your workplace understands what constitutes harassment and discrimination—and also understands the benefits of a diverse workplace.
Big companies may spend thousands on diversity training, but there are plenty of low-cost options available:

- Learn as much as you can from books on the subject and from exposure to people who are different from you.
- Investigate video series on managing diversity. Many are available for rental or purchase.
- Consider public programs. A growing number of Urban League, chamber of commerce, Small Business Administration and community college seminars and courses are bringing business owners together to learn about diversity issues.

As the business owner, it’s important to set a good example. Some ground rules to help keep you out of trouble:

- Don’t touch employees inappropriately.
- Never date someone who works for you.
- Don’t demean others or make suggestive comments. Watch your mouth; what seems humorous to some may offend others.
- Be sensitive to diversity of all kinds. Are employees in their 50s making condescending remarks about the “young upstarts” in their 20s? Two white women in their 40s might face a cultural conflict if one is from the Midwest and the other is from the West Coast, or if one has children and the other doesn’t.
- If you decorate your office for the holiday season, don’t include some religious symbols and leave out others. Many employers use nonreligious décor such as snowflakes and candles.

Put policies regarding discrimination and harassment in writing as part of your employee manual (see “Manual Labor” on page 399). Outline the disciplinary action that will be taken and the process by which employees can make their complaints known.

Hold a brief orientation meeting to introduce employees to your new policy or reacquaint them with the one already in place. Spell out very plainly what is and isn’t acceptable. Many employees are especially confused about what constitutes sexual harassment. While you want to follow the law and make a safe environment, you also don’t want your
staff walking around scared to say hello to one another.

Even if an incident does arise, the good news for business owners: Most complaints can be solved at the company level, before the issue comes close to a courtroom. To make this work, however, time is of the essence. Don’t put off dealing with complaints, or the victim is likely to stew.

Give both parties a chance to tell their side of the story. Often, the cause is a simple misunderstanding. To cover all your bases, you may want to have a neutral consultant or human resources professional from outside the company investigate the matter.

“Make the tough decisions and don’t look back. As long as you’ve thought things through and have kept the company’s interests at heart, you’ll be OK.”

—Katrina Garnett, Founder of Crossroads Software Inc.
part 5

chapter 25
Buyer’s Guide
Business Equipment Basics

chapter 26
Business 24/7
Using Technology to Boost Your Productivity

chapter 27
Net Works
Building Your Company Website

chapter 28
Keep in Touch
Using Technology to Stay Connected
When it comes to the day-to-day operation of your business, how you set up your office or workspace is essential. Your goal is to create a workspace that’s well-lit and will keep you as comfortable as possible, with access to business-related tools and equipment that will allow you to stay organized and productive.

As you’ll discover in this chapter, technology plays a tremendous role in creating a well-equipped office on a relatively tight budget. Just a few years ago, for example, if you needed a high-speed laser printer, scanner, copier and fax machine, these items needed to be purchased separately, at a cost of $400 to $2,000 each. Today, you can walk into any office or electronics superstore and purchase an all-in-one machine for well under $500 that’s capable of handling all these functions, in addition to the workload of most small or even medium-sized businesses.
What types of equipment do you need? It varies greatly based on the type of business you run as well as your personal work habits. In general, however, there are some basic pieces of equipment most new business owners need (these are discussed in more detail throughout Part 5):

- Computers (desktop, laptop, netbook and/or tablet)
- Software
- Fax machine
- Laser printer and/or color printer and label printer
- Copier
- Scanner
- Phone
- Voice mail
- Cell phone/wireless PDA (such as a BlackBerry or Apple iPhone)
- Calculator

Look over this list and consider which items you can’t live without, which products would be nice to have, and which (if any) you don’t need. When equipping a startup business, you must tread a fine line. Most people race out and purchase the best office equipment possible and often feel the compulsion to buy the latest tools simply because they’re cutting-edge. These entrepreneurs often end up spending way beyond their budgets, only to find that the items they bought aren’t necessary, don’t make them more productive, aren’t compatible with their existing equipment, or contain so many bells and whistles that the equipment is too confusing and time consuming to fully use.

At the other end of the spectrum are those entrepreneurs who try to make do with the bare bones. In an effort to save a few dollars, these business owners sacrifice efficiency and productivity, chugging along with a prehistoric computer, a one-line phone, or an internet connection that moves at a snail’s pace. In short, they’re penny-wise and pound-foolish.

Today’s business climate is so fast-paced, clients won’t do business with you if you can’t keep up. Assess each item, and determine how it
could benefit your business. Would you use a color laser copier often enough to make it worth the cost? Or for that occasional color copy, can you head over to Kinko’s? Do you really need the cutting-edge tablet computer from Apple, or would you be just as productive using a $300 netbook when you’re on the go?

Choose what technology and office equipment you absolutely need, then purchase the best quality equipment you can afford. When it comes to purchasing technology, you may be better off spending a bit extra now to ensure the item will last two to three years rather than purchasing something that will quickly become outdated or need to be replaced in just 12 to 18 months.

**Cost Cutters**

Technology is far less expensive than it was just three to five years ago. For example, you can purchase a powerful, PC-based desktop computer for under $1,000. Three years ago, a similar machine might have cost $3,000 or more. That being said, equipping your business can still be a costly proposition. Fortunately, there are several different avenues you can take to keep the expenses to a minimum.

**Financing Plan**

If you’re buying expensive equipment, consider having the manufacturers “lend” you money by selling the equipment to you over a period of time.

There are two types of credit contracts commonly used to finance equipment purchases: the *conditional sales contract*, in which the purchaser does not receive title to the equipment until it is paid for; and the *chattel-mortgage contract*, in which the equipment becomes the
property of the purchaser on delivery, but
the seller holds a mortgage claim against it
until the contract amount is fully paid.

There are also lenders who will finance
60 to 80 percent of a new equipment pur-
chase, while you pay down the balance as a
down payment. The loan is repaid in
monthly installments, usually over one to
two years, or the usable life of the equip-
ment. (Make sure the financing period does-
’t extend past the usable life of the equip-
ment; you don’t want to be paying for some-
thing you can no longer use.)

By using your equipment suppliers to finance the purchase, you
reduce the amount of money you need upfront.

When Lease Is More

Another way to keep equipment costs down is to lease instead of buy.
These days, just about anything can be leased—from computers and
heavy machinery to complete offices. The kind of business you’re in
and the type of equipment you’re considering are major factors in
determining whether to lease or buy.

If you’re starting a one-person business and need just one computer,
for instance, it probably makes more sense to buy. On the other hand,
if you’re opening an office that will have several employees, and you
require a dozen computers, you may want to look into leasing.

According to the Equipment Leasing Association of America
(ELA), approximately 80 percent of U.S. companies lease some or all
of their equipment, and there are thousands of equipment-leasing
firms nationwide catering to that demand. “[Leasing is] an excellent
hedge against obsolescence,” explains a spokesperson at the ELA,
“especially if you’re leasing something like computer equipment and
want to update it constantly.”
Other leasing advantages include: making lower monthly payments than you would have with a loan, getting a fixed financing rate.

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**PACKAGE DEAL**

As you put together an equipment leasing package, consider these issues:

- What equipment do you need and for how long?
- Do you want to bundle service, supplies, training and the equipment lease itself into one contract?
- Have you anticipated your company’s future needs so you can acquire adequate equipment?
- What is the total payment cost?

Also ask the following questions about each leasing source you investigate:

- Who will you be dealing with? Is there a separate company financing the lease? (This may not be desirable.)
- How long has the company been in business? As a general rule, deal only with financing sources that have been operating at least as many years as the term of your proposed lease.
- Do you understand the terms and conditions during and at the end of the lease?
- Is casualty insurance (required to cover damage to the equipment) included?
- Who pays the personal property tax?
- What are the options regarding upgrading and trading in equipment before the lease period expired?
- Who is responsible for repairs?
instead of a floating one, benefiting from tax advantages, conserving working capital and avoiding cash-devouring down payments, and gaining immediate access to the most up-to-date business tools. The equipment also shows up on your income statement as a lease expense rather than a purchase. If you purchase it, your balance sheet becomes less liquid.

Leasing also has its downside, however: You’ll pay a higher price over the long term. Another drawback is that leasing commits you to retaining a piece of equipment for a certain time period, which can be problematic if your business is in flux.

Every lease decision is unique, so it’s important to study the lease agreement carefully. Compare the costs of leasing to the current interest rate, examining the terms to see if they’re favorable. What’s the lease costing you? What are your immediate and long-term savings? Compare those numbers to the cost of purchasing the same piece of equipment, and you’ll quickly see which is the more profitable route.

Because startups tend to have little or no credit history, leasing equipment is often difficult or even impossible. However, some companies will consider your personal, rather than business, credit history during the approval process.

If you decide to lease, make sure you get a closed-end lease, without a balloon payment at the end. With a closed-end lease, nothing is owed when the lease period ends. When the lease period terminates, you just turn the equipment in and walk away. With an open-end lease, it’s not that simple. If you turn in the equipment at the end of the lease, but it’s worth less than the value established in the contract, then you’re responsible for paying the difference. If you do consider an open-end lease, make sure you’re not open to additional charges, such as wear and tear.

Finally, balloon payments require you to make small monthly payments with a large payment (the balloon) at the end. While this allows
you to conserve your cash flow as you’re making those monthly payments, the bad news is, the final balloon payment may be more than the equipment is worth.

There are many different avenues through which you can secure an equipment lease, including:

- Banks and bank-affiliated firms that will finance an equipment lease may be difficult to locate, but once found, banks may offer some distinct advantages, including lower costs and better customer service. Find out, however, whether the bank will keep and service the lease transaction after it’s set up.
- Equipment dealers and distributors can help you arrange financing using an independent leasing company.
- Independent leasing companies can vary in size and scope, offering many financing options.
- Captive leasing companies are subsidiaries of equipment manufacturers or other firms.
- Broker/packagers represent a small percentage of the leasing market. Much like mortgage or real estate brokers, these companies charge a fee to act as an intermediary between lessors and lessees.

For more information on leasing, the ELFA in Arlington, Virginia (elfaonline.org), and the Business Technology Association (BTA) in Kansas City, Missouri (bta.org), offer member directories. The ELFA allows you to personalize your directory and pay for only the information you need, which could result in paying well under $100 or well

Turning off your computer at night, on average, can save you more than $100 a year, and using fluorescent lights instead of 100-watt bulbs can reduce your lighting costs by two-thirds. However, certain types of fluorescent lights cause added eye strain, so if you’ll be spending 8 to 12 hours per day in a workspace with minimal natural light, you might want to splurge on lighting that won’t give you a headache or cause added eye stress over time.
over. The BTA offers informative resources and publications to the public for free; however, only subscribing members have access to its membership database.

**Wise Buys**

If your calculations show that buying makes more sense for you, you’ve still got some decisions to make. First and foremost, where to buy?

**Buying New Equipment**

The same piece of new equipment that costs $400 at one store can cost $1,000 at another. It all depends on where you go. Here are some of the most common sources for new equipment, with a look at the pros and cons of each.

- **Superstores.** Office or electronics superstores usually offer competitive retail prices because they buy from manufacturers in volume. Most superstores offer delivery, installation and ongoing service contracts for the equipment they sell. However, you’re unlikely to find knowledgeable salespeople at superstores, and the prices will almost always be higher than shopping online. It is convenient, however, to walk into a store and walk out with your purchase a few minutes later (rather than waiting up to a week for shipping).

- **Specialty stores.** Small electronics stores and office equipment retailers are likely to offer more assistance in putting together a package of products. Salespeople will typically be more knowledgeable than at superstores, and service will be more personal. Some even offer service plans. On the downside, prices go up accordingly. Unfortunately, many of these smaller, independently owned and operated specialty stores are going out of business because they can’t compete with online vendors or the superstores.

- **Dealer direct sales.** Many manufacturers choose this option as a way of maintaining their service-oriented reputation. On the plus side, you’ll get assistance from highly knowledgeable salespeople
who can help you put together the right system of products. You may also get delivery, installation and training at no extra cost. Many entrepreneurs swear by this method of buying. The downside: Since you’re dealing with one manufacturer, you won’t get to compare brands. Apple is the perfect example of a major computer company that has its own chain of retail stores, plus sells directly to consumers online.

■ **E-tailers.** Without incurring the overhead of a brick-and-mortar store, online equipment sellers are able to offer brand names at much lower prices than retail stores. To shop efficiently online, you must know exactly what you want to purchase (make and model numbers, for example), then shop around for the best prices and the most reputable online dealers. Use price-comparison websites, such as Nextag (nextag.com), to compare multiple vendors and their prices, and you could wind up saving 20 to 60 percent off your purchase. Shopping online also works for office supplies, such as toner or ink cartridges. A toner cartridge for a brand-name laser printer might sell at Staples or Office Max for $89 but be available online for $29 (or less).

No matter what source you buy your equipment from, be sure to investigate the type of service and support you’ll get before you whip out your wallet. A tempting price may seem like a compelling reason to forgo solid service when you buy, but it won’t seem like such a good deal when the equipment grinds to a halt in the middle of an urgent project . . . and the vendor is nowhere to be found.
In terms of computers, many businesses are turning away from PC-based systems and buying Apple instead because of the superior service offered through the AppleCare program. At any time, you can visit an Apple Store or call Apple’s toll-free number and quickly receive technical support by a knowledgeable, English-speaking expert. In addition, most repairs and replacement equipment are covered for three years. This is something Dell, Acer, HP and other PC-based computer manufacturers don’t offer.

To get the most from your equipment vendors, it’s important to lay the proper groundwork and let them know you’re a valuable customer. One way to do this is to make sure you send in the service registration card that comes with the product. Contact the vendor before problems arise to ask for all the relevant telephone and tech support websites, so you know what to do if disaster strikes. Maintain contact with the vendor by asking questions as they come up and giving the vendor any comments or ideas that might improve the product. This identifies you as an active user and builds your relationship with the vendor.

Before you buy, prioritize what’s important to your company; then get the answers to these questions:

■ How long does the warranty last?
■ Does the vendor offer a money-back guarantee? Many computer peripherals, for instance, come with 30-day money-back guarantees. Use this time to make sure the item works with the rest of your system.
■ Does the vendor charge a restocking fee? Even when a company offers a money-back guarantee, the company may charge a restocking fee of up to 15 percent of the product’s cost on returns.
■ What fees, if any, does the vendor charge for technical support?
■ How easy is it to reach technical support? Try calling before you buy the product to see how long you’re put on hold and whether the company returns calls. Many companies outsource their
technical support overseas, so you should also make sure the support personnel speak English and are easy to understand.

- What hours is technical support available? Be aware of time zones. If you’re in California and your East Coast vendor shuts down at 5 P.M., you could be out an afternoon’s work if your computer breaks down after 2 P.M. California time.
- How quickly can the vendor fix problems? What are the repair costs and time frames (on-site repair, 24-hour turnaround, etc.)? Who pays shipping costs if items need to be returned to the manufacturer for repair during the warranty period?
- Does the vendor offer any value-added services?

**Buying Used Equipment**

If new equipment is out of your price range, buying used equipment can be an excellent cost-cutter. But with technology changing so rapidly, you’ll want to make sure you’re buying used equipment that will meet your needs now and in the future. Some older computers, for example, won’t run the current Windows or Mac operating system, or the current versions of software you may absolutely need.

There are several sources for buying used. Asset remarketers, for example, work with equipment leasing companies to resell repossessed office equipment through a network of dealers and wholesalers—and sometimes directly to business owners. The prices are a fraction of the cost of buying or leasing brand-new equipment.

It is also simpler buying repossessed equipment through an asset remarketer than going to a bankruptcy auction. As in most auctions, the asset remarketing company accepts bids—but that is where the similarities end.

InterSchola (interschola.com) sells used equipment from an unlikely source: school districts. The company works with public and private school systems to help them sell their surplus equipment using an online auction sales model. You can often find amazing deals on used computers and office equipment.
Asset remarketers keep equipment in warehouses, which buyers visit at their convenience as they would a discount office equipment retailer. Often, the remarketer has a price sheet showing the equipment’s original price and its approximate resale value. Use this price sheet as a guideline in making your offer.

Leasing companies and asset remarketers must resell equipment at a fair market price, so three bids are usually required. There’s no set deadline, but these companies are eager to move their equipment out of storage and into the highest bidder’s hands, so if you see something you want, move fast.

**LEMON ALERT**

Whether you’re buying used equipment from an individual or a business, take these steps to make sure you don’t get stuck with a lemon.

- **Know the market.** Do some research before you make an offer. Read the classifieds to learn the going rates for the item(s) you want. Notice how quickly items move. Is it a seller’s market, or do you see the same ads run again and again?

- **Try before you buy.** Just as you would with new equipment, it’s essential to “test drive” used equipment. Run diagnostic tests; make sure all the parts are working; ask about any problems. (Sometimes, an item may still be still worth buying, even with the cost of repairs.)

- **Bring a buddy.** If you’re a novice, it helps to take a more experienced friend or colleague with you when you test the equipment. He or she can ask questions you may not think of and pinpoint problems you might miss.

- **Don’t buy if you don’t feel comfortable.** Never let anyone talk you into a purchase or make you feel guilty. If you don’t feel good about it, walk away.
If you want to buy, make an offer to the asset remarketing firm, which then sends it to the leasing company’s asset recovery manager. Some asset remarketers may require a $100 deposit when the leasing company accepts the bid; you’ll then need to pay with cash, certified funds or cashier’s check within a few days.

While finding asset remarketing companies is as easy as calling a local repossession company, be careful to find a reputable company. While some states regulate asset remarketing or repossession firms, there are unscrupulous remarketers in many states who hang out their shingle, pocket consumers’ deposits, and then disappear. The safest way to find an honest asset remarketer is to call a leasing company’s asset recovery manager and ask for the name of a local firm. Some leasing companies prefer to sell to end users directly, and they may ask for a description of the equipment you want to purchase.

In addition to asset remarketers and leasing companies, you can also buy used equipment from individuals (look in the local classifieds) or check online for used equipment retailers in your area. Also, be sure to check popular used equipment websites like Craigslist.com or Freecycle.com. Another great resource for finding affordable equipment are auction sites, such as eBay (ebay.com), Bid4Assets (bid4assets.com), Liquidation.com, and DellAuction.com, which allows you to buy used and refurbished computers, peripherals and software of any brand. The resale of used equipment is becoming more common, so in most cities, you’ll have several sources to choose from.
If you’re like most businesspeople, you probably have a main base of operations you call your “office.” It may not be an office per se; it could be a retail store, a factory floor, or a trailer on a construction site. It could also be a room in your home or a cubicle within a larger office complex. But it’s where you can usually be found from 9 to 5.

Correction: It used to be where you were usually found. These days, your exact location could vary widely. Nowadays, entrepreneurs and employees alike are just as likely to be found working from home, at a client’s office, from a hotel room, or while on board an airplane or train. In fact, according to wide-ranging studies by The Dieringer Research Group, more than 15 million of us frequently work from parks and other recreational sites.
Widespread use of devices such as iPhones, BlackBerries, and the latest wireless laptop computers and netbooks means your office can be virtually anywhere, and you can stay connected to your co-workers, clients and customers anywhere, anytime.

Business that’s conducted away from the traditional office goes by a lot of names, such as mobile working or telecommuting—the latter term underlining the importance of telecommunications in enabling this activity (see Chapter 28). Another way to think about it is that, in reality, the office is you—or, at the very least, it becomes whatever workspace you happen to be occupying at the moment. Work is now something you do, rather than a place you go to.

In today’s business world, you’re no longer chained to a desk by a fixed phone number (that only rings at your office), and you’re not

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**SAVE**

Don’t need new? The best place to find used equipment is eBay. There are other auction sites, but eBay’s advantage is the sheer size of its worldwide community.

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**VIRTUALLY ON THE ROAD**

Thanks to the latest technology, there’s a wide range of products and online services to help you become more productive. The Apple iPhone, for example, offers thousands of business-oriented applications that allow users to truly customize their phones and transform them into the ultimate time management, contact management and personal productivity tools.

For the on-the-go entrepreneur, the trick is to choose technology-based tools, whether it’s an iPhone, iPad, BlackBerry, netbook or laptop, that best fits your work habits and style, and that you’re most comfortable using. After all, you want to boost your productivity, not drown yourself in technology that’s not appropriate or overly complicated for what you need it to do.
required to use an oversized desktop computer that contains all your important data. Internet connectivity, powerful mobile versions of office tools, and new phone services (not to mention the latest cell phones and wireless PDAs) are loosening the ties that bind and making physical location more about convenience than necessity.

Many entrepreneurs have the equivalent of fully equipped virtual offices in the laptops, cell phones, PDAs and BlackBerrys they carry around. Some enterprises have even become virtual companies with workmates spending most of their time in separate locations and meeting only occasionally. Basically, you’re “in the office” whenever you’re telecommuting.

The goal isn’t to do away with the traditional “office,” it’s to use networking and communications technologies to turn it into your “extended office.” Your extended office isn’t a real, physical location; it’s virtual, just like the internet is virtual. You can’t touch the internet, even though you can touch one of the servers, routers or fiber optic cables on which it depends. The internet is a convention on which we all agree—just as we agree that you’re in your extended office when we reach you by cell phone on a Bahamian beach.

People have been teleworking for decades, but our current degree of mobility is a direct outgrowth of the internet and the mobile devices that allow us to easily connect to the internet from anywhere.

**Equipping Your Virtual Office**

Even though you may be starting your first business, you’re probably fairly experienced with desktop and laptop computers, tablets, wireless PDAs, cell phones and smartphones,
as well as other productivity equipment needed to get your enterprise off the ground.

One unfailing characteristic of consumer and small-business technologies is that each new iteration delivers more for less. Depending on how much mobility you need, you may find yourself buying more individual pieces of equipment than in years past, but the price tag on each one is guaranteed to be lower than last year and the year before that. In fact, prices fall so rapidly that office technologies depreciate at an unusually high rate. It’s not that they’re shoddy—quite the contrary. But their resale values are continuously being undercut by cheaper and more powerful successors.

Therefore, you should think about office tools and technology slightly differently than you do other durables. Here are a few truisms that need to be taken into account when buying hardware (although they don’t necessarily apply to software):

- Even the most expensive office item, the desktop or laptop computer, is dirt cheap by historical measures.
- Whatever you buy and whenever you buy it, it will appear expensive and underpowered compared to succeeding versions. New computer technology is available every three to six months. The computer you purchase brand new today will be outdated by more powerful equipment within months and will probably need to be replaced altogether within two to three years if you want to stay current.
- Theoretically, office equipment pays for itself in a very short time by enhancing your productivity; it then helps you make money by letting you do whatever you do faster and better.
Treat your current technology-related purchases as a simple business expense rather than the investment in capital equipment it actually is. Irrespective of how you treat these items on your tax return, don’t try to extract the value of this equipment over years. Yes, the products will work just fine and continue to deliver productivity for years. But their costs are likely recovered within weeks or months—no depreciation calculations required (see “It’s Now or Never” on page 437).

That’s not to say you shouldn’t get the best buy you can. Cash is always precious. But so is your time, and price tags are usually overshadowed by the return on investment from most office products. The real issue when shopping for office equipment is whether the new machine will deliver a higher rate of productivity than the old. It’s a mistake to try to squeeze the last bit of usefulness out of older equipment when a change could result in higher levels of moneymaking. Keep it only until something comes along that will deliver still higher productivity.

**Being Well-Connected**

The first concern in equipping yourself and your office (virtual or otherwise) is connectivity. You have an expanding constellation of stuff, and it’s more important than ever that it all work together for maximum effect. Efficiency today means being well-connected—both inside and outside the walls of your company.

Even if you start off as a solo operator working from a home office, you’ll want to connect electronically to clients and suppliers and possibly share proposals, spreadsheets and other data files. This not only requires phone, fax and instant messaging (IM) connections but usually some level of compatibility among productivity software, IM services, and handheld wireless devices. That used to mean sticking with only the most popular operating systems and applications for seamless data transfer among employees and business partners.

Today, however, PCs can communicate easily with Macs and BlackBerrys and with iPhones; any peripheral that connects to a computer via a USB connection will most likely work with all computers.
on a network. Sure, you may still encounter minor compatibility issues, but for the most part, exchanging data and files is easier than ever, regardless of what type(s) of computer equipment is being used.

At your office, the network is the thing that helps you coordinate your tools—both those inside the office and out—and share them and the data on them among co-workers and partners. Networks include your local area network, Bluetooth connections between devices, cellular connections over a wide area and, of course, the ultimate backbone, the internet.

It’s not really our portable devices—laptop computers, cell phones, wireless PDAs, netbooks and tablets—that extend our office. It’s this infrastructure that networks all our devices together and provides quick and easy access to shared information, both in-house and outside, via global network providers.

**It Takes Two**

Even if you’re starting as a sole proprietor, you really should have at least two connected computers. It doesn’t have to be two desktop computers. If you travel a lot, one could be a laptop computer or netbook.

It’s only a matter of time before your hard drive crashes, you get a virus, or there’s some inscrutable problem with the first PC’s on/off button—whatever. Computers are very durable, but all equipment can fail.

What will you do if the machine holding your critical business information happens to be among the 100,000 computers lightning strikes every year? Even if you’re among that fraction of users who have their data backed up somewhere, how long will it take you to run
out and buy a new computer, and add all your usual software configured the way you like it so that data can be read? How many hours or days can your business be offline from customers and business partners?

Realistically, you need at least one duplicate of your main computer that you can immediately turn to without losing a step. Ideally, there will be a third, portable version kept in another location to guard against fire, theft and flood. Your backup computer could be a laptop used for traveling, but it should be nearly as capable as your first.

**Serving It Up**

Ultimately, you want to build a virtual network that ties your office and its equipment to all those other places and devices you use for work. Thanks to wireless networking, your home, back deck, a local coffee shop, park and automobile can be part of your extended office.

But the most logical place to start is by connecting your main computer and its backup. Your primary workstation will likely become the heart of your operation, where you generate spreadsheets, keep your books, create sales presentations, surf the net, and do your word processing. If yours is a one-person operation, that’s usually where the master copy of everything is kept—and, if you have help, no one but you should have full access to its data.

Again, even if you’re a one-person operation, you need another computer mirroring that system (or a very reliable data backup solution). As your company grows, you might find it cheaper and more convenient to keep master copies of software and even data on a central
computer, and give different workstations access to more or less of it, depending on the needs of individual employees.

Any computer that serves up data and other services to other devices is referred to as a server, and the computers that get information from it are the clients, arranged in a client/server architecture. As networks and the demands on them grow, computers with specialized characteristics are chosen for servers. But you don’t need to worry about shopping for server hardware at this stage.

By the way, the word server also is used to refer to the operating system that makes connections possible—software like Windows, Mac OS or Linux. These operating systems include all the special software features to connect your computers in a network.

**Networking**

The traditional way to create your LAN (Local Area Network) is to string very inexpensive Category 5 cable between the Ethernet adapters of two or more computers. You may need to buy a small and inexpensive Ethernet card to plug into one or more of your computers, if any of them is old. Most computers today come with built-in Ethernet adapters.

Easier still is to network your computers wirelessly using 802.11x or Wi-Fi network adapters. These come in a variety of network speeds and adapter styles—Ethernet or USB ports, or as an add-in card—for connecting computers. These Wi-Fi radio transceivers have become hugely popular, a standard feature of laptops and available in all smartphones and wireless PDAs. More U.S. households now use Wi-Fi wireless
In most cases, you’ll probably find it more advantageous—and certainly more convenient—to expense, rather than depreciate, computer and telecommunications equipment on your tax returns. That way, there’s less paperwork and no mind-bending depreciation calculations that change every year. Also, the time value of money tells us that a lump-sum refund to you today is always worth more than pro rata shares over the next three to five years.

Uncle Sam has been cooperating in recent years by raising the amount of business equipment you can expense rather than depreciate. No, he isn’t getting soft and generous. Why then? Adam Smith, the father of modern economics, said it first: New equipment generates new [higher] levels of productivity, which generates increased profits, which generates increased taxes. Speak with your accountant about the latest tax deductions and allowances available.

Choosing Partners
There are two things on which you can rely these days when buying just about any individual piece of office equipment:

technology for home networking than cabled Ethernet, according to a study by Parks Associates. Wi-Fi hot spots in airports, hotels, coffee shops and other public places deliver this connectivity on the road.

Broadband data channels on cellular networks are providing much wider connectivity. Formerly limited to carrying voice, cell phone networks are increasingly able to transfer data at lightning-fast speeds. This technology works with cell phones, wireless PDAs, netbooks and laptops—making the net available anywhere, regardless of whether there’s a nearby electrical outlet or Wi-Fi hotspot.
1. The minimum configuration is going to support 95 percent (or more) of what you want to do.

2. Prices will be so low as to eliminate just about all chance of buyer's remorse.

Add to that the ease with which internet shopping sites let you comparison shop, and you have a confluence of factors that make it pretty hard to go wrong when buying office equipment. Computers and peripherals are constantly evolving, but the choice of models and features are broad and deep.

When it comes to PCs, you can choose from dozens of well-known manufacturers, such as Dell, HP or Acer, all of which run the Windows operating system. In the last two years or so, more and more people, however, are turning to Apple computers to handle all their computing and cell phone needs. Apple computers run the Mac operating system (which has some major advantages over Windows), plus they can also run all Windows applications, so compatibility is no longer an issue.

Apple offers greater ease of use, superior technical support, the availability of Apple retail stores nationwide, and a sleeker design than most PCs, but they’re also typically a bit more expensive. To learn more about Apple, visit Apple.com or any Apple retail store.

On that note, there is no one “right” computer brand, printer type, phone system or fax solution for everyone, any more than everyone needs the same model Chevy or Ford. You’re unique, and your business idea probably is too. Your enterprise will have its own unique set
of equipment needs that probably differ from those of the business next
door. Not a problem. Web shopping sites let you quickly find just what
you need.

**Flying Business Class**

Personal computers, whether PCs or Macs, are less expensive than
ever. For about $1,500 (usually much less), you can buy a powerful,
nicely equipped, state-of-the-art PC. For less than $2,000, you can
purchase an extremely powerful Mac-based desktop (an iMac) that will
meet all your business-related needs.

Your goal when purchasing computer equipment should be to
select items that not only meet all your computing needs today but will
also grow with you over the next two to three years until your next
upgrade. Buy more than you need now so you’ll be able to continue to
run the latest versions of the software and applications you need to
properly manage your business.

You’ll want a business-class, rather than a first-class, computer.
That means instead of going for the cutting-edge graphics and proces-
sor speeds preferred by enthusiasts of multimedia entertainment, gam-
ing and other photographic activities, a business user’s money is better
spent getting just a little more of all the standard stuff—memory, stor-
age, a higher resolution or larger display, those things that not only
make computing more pleasing but also enhance your productivity.

They can help you do more in less time, and, if you’re in business,
time is money. Things like waiting for databases to update, web pages
to download, and insufficient memory errors waste your time and can
interfere to different degrees with your efficiency. You want to have the
best business productivity enhancer you can afford.

**Take Note**

As mentioned, if you travel or work from home and the office, or dif-
ferent spots around your home, you may prefer that your second com-
puter be a laptop or netbook. Portables come in all shapes and sizes
today, and you can easily find one powerful enough to perform any or all the desktop duties described earlier.

When it comes to laptops, focus on their computing power (processor speed, memory, hard-drive capacity, available ports, DVD/CD drive, etc.) and battery life as well as the overall size and weight of the unit. A laptop that weighs five pounds or less is a lot easier to lug around when you’re traveling than a larger laptop that weighs six to eight pounds.

However, if your laptop computer will be your primary backup computer, and you’ll need serious computing power while on the go, you may want to spend more (up to $2,500) for a unit with a larger display and extra computing muscle. On the flip side, if you’ll want a small, lightweight computer, a netbook (priced under $300) might be the perfect solution.

A typical laptop will generally run a few hundred dollars more than an equivalent desktop model, but name-brand laptops can easily be found for as little as $500. Laptops suitable for serious business users typically range between $1,000 and $2,500.

**The Well-Dressed Computer**

The minimum you should look for in terms of technical specifications for a desktop or laptop changes constantly. As a general rule, look for a computer with a fast processing speed, graphics card, and DVD/CD drive; sizeable amount of memory; large-capacity hard drive; powerful sound card; and plenty of ports.

In January 2010, Acer (acer.com/us), for example, was advertising its Aspire Z56600—equipped with Windows 7 Home Premium Edition, an Intel Core 2 Quad Processor, a 23-inch wide touch-screen display with integrated speakers, 4GB DDRS SDRAM, a 1TB SATA...
hard drive, a Super-Multi drive, multi-in-one card reader, 802.11b/g/Draft-N wireless LAN, integrated webcam, wireless keyboard and a mouse—for just under $1,000. This would be plenty of computing power to satisfy the needs of most business users.

Every three to six months, Apple overhauls its lineup of iMac and MacBook computers with improved specifications. For descriptions of the latest desktops and laptops available, visit any Apple store or apple.com. Plan on spending between $999 and $2,000 for a MacBook or MacBook Pro laptop and between $1,100 and $2,500 for an iMac or Mac Pro desktop that runs both Windows and Mac-based software applications.

**Office Productivity Software**

A computer is useless without the right software to support your business activities. The most popular suite of business-related applications is, without a doubt, Microsoft Office. It’s available for both PCs and Macs. There are, however, other business application suites that also offer word processing, spreadsheet, database management, scheduling, contact management, and presentation tools, including Lotus SmartSuite (01.ibm.com/software/lotus/products/smartsuite), Corel WordPerfect Office (corel.com), and Sun StarOffice (staroffice.com).

One of these software suites alone could cost $150 to $400 or more, depending on the components included. Computers are so cheap that not many computer manufacturers include an office suite on a standard hard drive, but most will offer Microsoft Office pre-installed as an upgrade.

After that, two other kinds of software you can’t live without are a security suite and accounting program.
You’ll want an all-encompassing security suite, such as those offered by companies like Symantec (symantec.com), McAfee (mcafee.com), Zone Labs (zonealarm.com/security/en-us/home.htm), Trend Micro (trendmicro.com) and Panda Labs (pandasecurity.com/usa/) that include a firewall, regularly updated anti-virus and anti-spyware definitions, e-mail scanning and other protections for $50 to $90. If you’re running Mac-based computers, different types of security software may be needed, depending on how you’ll be using the computer.

Whether or not you use an accounting professional, you also need a good basic accounting program, from a company like Intuit (intuit.com), Peachtree (peachtree.com) or Microsoft (microsoft.com) to keep up with your checkbooks, bank accounts, invoices, bills, taxes and inventory. Most of these programs let you pay bills and download bank account information electronically, use your printer to create checks, and link to tax preparation software so you can minimize your tax liability. (See Chapter 37 for a list of popular programs.)

**Peripherals**

There are any number of things you can hang off a computer these days—or, more likely, wirelessly connect to your office network. The basics include printers, scanners, copiers, webcams, external hard drives, thumb drives, digital cameras, speakers, and fax machines. If you have an iPhone or BlackBerry, you can also connect these devices to your computer to sync data.

**WARNING**

Got a cash-flow problem? Who doesn’t? Don’t solve it by succumbing to the gazillion counterfeit software offers filling your e-mail inbox. If you get caught purchasing these low-cost knock-offs, you’ll be fined heavily and could face criminal charges. Instead, look into using open source software, which is just as powerful as the higher priced commercial software you pay for, only it’s 100 percent free, with no strings attached. SourceForge (sourceforge.net) is an excellent resource for finding and downloading a wide range of open source software for any operating system.
Most businesses need at least one good-quality laser printer; however, if your printing needs involve color or photo-quality output, an inkjet or high-end photo printer will also be useful. When choosing printers, look at the unit’s resolution, print speed and paper-tray size.

For most small businesses, an all-in-one device that includes a printer, scanner, fax machine and copier is ideal. Plus, you’ll definitely want to invest in an external hard drive to back up important data.

Most peripherals these days connect to a computer via FireWire, or a USB or Bluetooth wireless connection. It’s common for a desktop computer to have up to ten or more devices and peripherals connected to it, all of which work seamlessly with your software.

As a general rule, focus first on your needs, and then shop around for the most advanced technology you can afford. If you don’t need a color laser printer, for example, opt for a less expensive black-and-white laser printer with a faster print speed and larger paper tray. Or if you’re choosing between laser printers and inkjet printers, consider not only the cost of the hardware (the printer itself) but also the ongoing cost of toner or ink cartridges, as well as the printer’s speed. If you’ll frequently be producing 100-page reports, a printer that churns out 15 to 30 pages per minute is much more useful than one that prints just 8 pages per minute with a feeder that holds just 25 sheets.

Once you determine your needs, shopping for computer peripherals online will always save you a fortune. Reserve a visit to the local consumer electronics or office supply superstore to see and touch the latest technology firsthand before making your purchases.

In the past, any one of these peripherals could have been priced in the thousands, and, of course, you can still pay as much as you want to get all the buzzers and bells. But a personal laser printer will only set you back around $100—ditto for a scanner and a fax. And while a copier

TIP

To buy online or to not buy online, that’s the question. If you’re not techno-savvy and need after-sales support, the superstores are a good option for purchasing equipment. If you’re looking to save money and don’t need support, buying online is the way to go.
Office Equipment Budget

The following are rough estimates for what it will take to outfit a single entrepreneur with basic computer and telecommunications equipment, along with related services for the first year. More expensive options are always available, and you may not need every item on this list. Plus, some items can serve more than one individual without additional cost.

<table>
<thead>
<tr>
<th>Basic Office Equipment</th>
<th>First-Year Low Cost</th>
<th>First-Year High Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic office furniture and accessories</td>
<td>$1,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>1 Desktop computer</td>
<td>1,000</td>
<td>3,000</td>
</tr>
<tr>
<td>1 Laptop computer</td>
<td>1,100</td>
<td>2,000</td>
</tr>
<tr>
<td>Printer, scanner, copier, fax combo</td>
<td>100</td>
<td>500</td>
</tr>
<tr>
<td>Label printer</td>
<td>100</td>
<td>300</td>
</tr>
<tr>
<td>Software (office suite, security, accounting)</td>
<td>Free</td>
<td>2,500</td>
</tr>
<tr>
<td>Remote data backup service</td>
<td>100</td>
<td>500</td>
</tr>
<tr>
<td>Uninterruptible power supply</td>
<td>150</td>
<td>500</td>
</tr>
<tr>
<td>Miscellaneous supplies</td>
<td>500</td>
<td>1,000</td>
</tr>
<tr>
<td>Three-node Wi-Fi wireless LAN</td>
<td>50</td>
<td>250</td>
</tr>
<tr>
<td>Internet access (low-speed vs. high-speed)</td>
<td>100</td>
<td>600</td>
</tr>
<tr>
<td>2 Telephone lines (including long distance)</td>
<td>200</td>
<td>1,200</td>
</tr>
<tr>
<td>1 Cell phone/smartphone</td>
<td>1,000</td>
<td>1,200</td>
</tr>
<tr>
<td>Website domain hosting</td>
<td>60</td>
<td>300</td>
</tr>
<tr>
<td>Website design (simple site)</td>
<td>500</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Total Startup Expenses</strong></td>
<td><strong>$5,960</strong></td>
<td><strong>$17,350</strong></td>
</tr>
</tbody>
</table>
appointed for business can run into the thousands, you can find very capable ones for $200. But cash and space usually being at a premium for a startup business, there’s just not a good reason anymore not to buy a single multifunction device (MFD) that rounds up three or four of these peripherals in one convenient box.

MFDs didn’t used to be the best alternative for growing businesses when prices were high and the technologies of these devices were evolving at different rates. You could find yourself locked behind the curve on one or more, and, since MFDs cost in the thousands, their purchase became a complex decision.

Not so anymore. There are any number of MFDs priced between $100 and $300, from companies such as HP, Canon, Brother, Epson and Kyocera, that pack an incredible amount of functionality. For example, HP—the longtime quality leader and high-priced spread in printing peripherals—has an absolutely amazing MFD line with several models designed for entrepreneurs that print, scan and copy for less than $200.

In some cases, it might be useful to think of these categories of peripherals as supplies, rather than equipment, because, in fact, the replacement toner cartridges for MFDs and individual copiers and printers can cost as much as the hardware itself. Today, an MFD is almost an impulse buy.

Suffice to say, entrepreneurship is no longer a stationary activity. Entrepreneurs go where the action is, stay productive en route, and use technology to adapt to changing market conditions and ad hoc business needs. Now you can make the most of what is available wherever you are.

Printers are relatively cheap. What’s expensive is the toner or ink cartridges you must use with the printer. You can shop for name-brand cartridges at retail stores and pay a fortune, or you can shop online for compatible, no-name cartridges—that cost up to 80 percent less. Just go to a price comparison website, such as Nextag.com, and enter the make and model of your printer. Also check out eBay. In most cases, the cartridges are the same or better quality than their name-brand counterparts.
# Office Shopping List

Use this shopping list to help price and compare your office equipment and service alternatives.

<table>
<thead>
<tr>
<th>Expense</th>
<th>Price 1</th>
<th>Price 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desk, chair, filing cabinet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desktop computer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laptop/Netbook/Tablet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iPhone, BlackBerry or smartphone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laser printer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scanner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Copier</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fax machine</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multifunction printer/scanner/copier</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uninterruptible power supply</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office productivity suite (software)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Security software</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounting software</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Desktop or web publishing software</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiline telephone, plus two landlines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Voice mail service (answering service/machine)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cell phone service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High-speed internet access</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Website hosting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paper, cables, miscellaneous supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Startup Expenses</strong></td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>
Why put your business online? The answer is simple. Because in today’s business world, it’s essential that your business have an online presence if you want to stay competitive. Your prospective and existing customers use the internet for a wide range of purposes, such as researching products they need, then purchasing those items from the comfort of their homes or offices, or anywhere else they may be. Chances are, your competition is already online and is using their internet presence as an extremely powerful sales, marketing and promotional tool. Not being online puts your business at a serious disadvantage.

A web presence allows you to communicate with anyone, anywhere (or thousands of people at once) with e-mail, a blog, an electronic newsletter, or directly through your website. Your website can also be an electronic brochure (that’s available 24/7) to show and promote your wares to
prospective customers, offer interactive customer service, allow them to make immediate purchases, then back up those sales with technical support.

**Sounds Like a Plan**

If you plan to sell anything online, having an e-commerce plan is as important as your original business plan. Because you’re exploring new territory, making decisions about technology and marketing, and establishing a new set of vendor relationships, a well-thought-out plan will serve you well.

The first step in writing an e-business plan is to decide what kind of experience you want your online customers to have. Think not only about today but also two and five years down the road.

Your e-commerce plan starts with website goals. Who are your target customers? What do they need? Are they getting information only, or can they buy products at your site? These key questions, asked and answered early, will determine how much time and money you’ll need to develop and maintain an online presence.

Second, decide what products or services you will offer. How will you position and display them? Will you offer both online and offline purchasing? How will you handle shipping and returns? Additionally, don’t overlook the customer’s need to reach a live person. A toll-free phone number should be prominently displayed that customers can call anytime to get their questions answered by a live person.

As you explore the web for vendors to support your e-business, have a clear idea of how you want to handle the “back end” of the business. If you decide to sell online, you’ll need a shopping cart component, which is a means of handling credit card processing, and an organized order fulfillment process. However, you may decide that your site is informational only, and that you will continue to process transactions offline.

Finally, even if you build an amazing website, don’t assume people will find you on their own. If you simply build it, they will not come. If
you want to develop a consistent flow of traffic to your site, it’s essential that you plan, execute and maintain an ongoing and multifaceted promotional strategy that’s carefully targeted to your audience. This is in addition to the promotions, advertising and marketing you already do for your brick-and-mortar business.

“The website should be viewed as an integral part of the marketing effort—as another ‘front door,’ if you will, into the business,” says Frank Catalano, an Auburn, Washington, marketing strategy consultant and co-author of Internet Marketing for Dummies. “After all, the site is a way to distribute information, gather customer feedback and even sell a product or service. Just promoting a website without regard to overall business goals and other marketing efforts is pointless.”

The Name Game

Once you’ve decided to have a website, one of your first “to-do” items is to make a list of possible website names or URLs. Then run, don’t walk, to the nearest computer, log on to the internet, go to your favorite search engine, and type in “domain registration.” You will find a list of companies, such as networksolutions.com, godaddy.com and register.com, that will guide you through the simple domain registration process. For a modest fee ($8 to $75), you can register a domain name for one or more years. You’ll probably discover that GoDaddy.com offers the most competitive rates for domain name registration, plus the widest range of online tools and services that will help you plan, design, publish, manage and promote your online presence.

TIP

Building and maintaining a well-designed online presence, particularly a website with an e-commerce component, requires a significant time and financial commitment. For more details on how to accomplish this successfully and professionally without spending a fortune, pick up a copy of Entrepreneur magazine’s ClickStarts: Design and Launch an Online e-Commerce Business in a Week (Entrepreneur Press) by Jason R. Rich.
If the name you decide on is taken, you’ll want to have at least two or three backup options. Let’s say that you sell flowers, and you would like to register your online name as flowers.com. A search shows that flowers.com is taken. Your second choice is buyflowers.com, but that’s already spoken for as well. Many of the domain name registrars, like GoDaddy.com or Register.com, offer several alternatives that are still available, such as buyflowers.tv, buyflowers.cc and buyflowers.ws.

How are these different? Instead of the generic top-level domains (such as .com, .org, .net, or .gov), they include lesser-known and used top-level domain extensions. The problem with this is that most web surfers automatically type “.com” after the domain name they’re looking for. If your competition has flowers.com, but you have flowers.info, you may lose a significant amount of traffic as a result of web surfer confusion. Thus, it’s preferable to register a domain name that ends with “.com.”

From the available names, choose one that’s easy to spell and remember, and describes what your company does. Make sure, however, you’re not imposing on someone else’s trademark or copyrighted name. In many cases, the name of your company, with the addition of dot-com (www.[YourCompanyName].com) is a suitable domain name that you should definitely register.

If you choose a domain name that’s difficult to spell or that might easily be confused with something else, also register the most common misspellings, or what you think people might accidentally type into their browser to find your website. If you don’t do this, your competition might, and they could wind up stealing some of your website traffic.
Once you’ve chosen a name, prompts on the domain registration site will guide you through a simple registration procedure. You’ll generally be offered one-, two- or three-year registration packages. Once you pick a domain name and start promoting it, you’ll want to stick with it. Otherwise, you’ll confuse your customers and could lose web traffic. However, it is appropriate to have several domain names linking to the same website. These different domain names can be used as part of separate marketing and promotional plans that target an audience.

Why is domain name registration imperative? Everyone wants a catchy name, so registering yours ensures that no one else can use it as long as you maintain your registration. For a small investment, you can hold your place on the internet until you’re ready to launch.

With your e-commerce name established, start telling people your domain name and promoting it heavily. Make sure you’ve done everything you can do offline to tell people about your site at the same time you actually go online. Print your web address on your business cards, brochures, letterhead, invoices and press releases as well as on your product packaging and within product user manuals and advertisements. Stick it on other items, too, such as mouse pads, T-shirts, promotional key chains, and even your company’s van.

**Website Basics**

Once you’ve registered your domain name and have a plan in place for what you want to offer prospective and existing customers online, the next major challenge is designing and building your actual website or online presence.

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**TIP**

Even if you work from home or have a day job and are starting an e-business on a shoestring, customers need to be able to reach you. An answering machine or a voice-mail box that says “We are not in the office at this time. Our business hours are from blank to blank. Please leave your name and number and a brief message, and we’ll get back to you” is a simple solution. You should also set up an e-mail autoresponder that will guarantee customers that they’ll hear back from you on the next business day.
A website is typically a collection of individual web pages that are connected with hyperlinks. What makes a good website? Before getting enmeshed in design details, get the big picture by writing a site outline. In addition to basic text, your website can incorporate photos, illustrations, animation, videos, audio clips, music, and a plethora of other multimedia elements or content that will convey your information to your target audience in an easy-to-understand, visually appealing and appropriate manner. The content you develop and publish should directly relate to and help you achieve the goals and objectives you’ve set for your website.

A well-thought-out site outline includes:

- **Content.** The key to a successful site is content. Give site visitors lots of interesting information, incentives to visit and buy, and ways to contact you. Once your site is up and running, continually update and add fresh content to keep people coming back.

- **Structure.** Decide how many pages to have and how they’ll be linked to each other. Choose graphics and icons that enhance the content.

- **Design.** With the content and structure in place, site design comes next. Whether you’re using an outside designer or doing it yourself, concentrate on simplicity, readability and consistency. Remember to focus on what you want to accomplish.

- **Navigation.** Make it easy and enjoyable for visitors to browse the site. For example, use no more than two or three links to major areas and never leave visitors at a dead end.

- **Credibility.** This is an issue that shouldn’t be lost in the bells and whistles of establishing a website. Your site should reach out to every visitor, telling that person why he/she should buy your product or your service. It should look very professional, and give potential customers the same feeling of confidence they would get with a phone call or face-to-face visit with you. Remind visitors that you don’t exist only in cyberspace. Your company’s full contact information—company name, complete
address, telephone, fax, and e-mail—should appear on all or most of your individual web pages and be displayed prominently on your site’s home page.

An outline helps you get the most out of your website design/e-commerce budget. It will also help you determine whether you, or someone in your company, can design portions of the website, or if you need to solicit outside help. That way, when you hire someone, it will be for only the parts of the job that you’ll need to have outsourced.

At this point, you have two options: You can bring your detailed outline to a prospective web designer, or you could go the do-it-yourself route. Once a designer has your outline, the process will be more efficient, but creating a website from scratch can still be costly and time-consuming. Consider researching one of the many website or e-commerce turnkey solution services, which allow you to design, publish and manage a website or e-commerce site by customizing website templates using online design and management tools. These services are inexpensive, powerful, and allow you to create highly professional websites with no programming skills.

There are only a few possible reasons why you’d want to hire a website designer and/or programmer to have your site created from scratch vs. using a turnkey solution. One reason would be if you absolutely require specialized functionality (either on the front or back end of the site) that isn’t offered by the turnkey solutions. Many startups initially spend too much on a custom-designed site that wasn’t really required, and, ultimately, regret the decision since their financial resources could have been put to better use elsewhere. Instead, it’s best to rely on an inexpensive turnkey solution for creating, publishing and managing your website. As your company grows and becomes successful, it’s then possible to transition to a custom-designed site, if the need arises.

“A dream is just a dream. A goal is a dream with a plan and a deadline.”

—Harvey MacKay, Founder of MacKay Envelope Co.
Once you know what tools and resources you’ll use to create and manage the site, the next step is to organize your site’s potential content into a script. Your script is the numbered pages that outline the site’s content and how web pages will flow from one to the next. Page one is your home page, the very first page that site visitors see when they type in your URL. Arrange all the icons depicting major content areas in the order you want them. Pages two through whatever correspond to each icon on your home page.

Writing a script also ensures your website is chock-full of appropriate content that’s well-organized. Offer your visitors content that’s valuable, informative and engaging—make it worth their while to spend time on your site. Provide regular opportunities for visitors to get more content. Whether you offer a blog, free electronic newsletter, a calendar of events, columns from experts, or book reviews, your content and the site’s structure become the backbone of your website.

As part of your website design, use graphics, colors and fonts that make sense (not just to you but to your target audience as well). Subtle

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RESEARCH MADE PERFECT

Research is what makes an effective website. Some good resources are:

- **Entrepreneur.com’s Online Business How-To Guides** (entrepreneur.com/ebusiness/howtoguides/index.html). This series of articles offers everything you need to know about starting, running and growing your online business.

- **E-Commerce Guide’s Starting an Online Store: The Essential Checklist** (ecommerce-guide.com). These articles list everything you’ll need to get your online store off the ground.
visual cues make all the difference in how visitors respond to your website. Surf the net to research what combinations of fonts, colors and graphics appeal to your audience, and incorporate pleasant and effective design elements into your site.

If your target audience is comprised of tween or teenage girls, using a color combination of pinks, reds and other feminine or pastel colors, along with more decorative (yet easy-to-read font) makes sense. However, if you’re targeting middle-age businessmen, a more masculine color scheme, combined with traditional fonts, should be used.

To create a successful website, all the elements must work seamlessly. Sure, having top-notch content is essential, but it must be displayed in a manner that’s easy to understand, visually appealing, simple to navigate, and of interest to your target audience. How you present your information is important. It’s not just about what you have to say, but it’s also the manner in which you present that content that will either attract or repel your audience.

**Handy Tools**

Your website is your online presence and your connection to the world, so give it your very best shot, making sure it conveys the image and message you want and need your customers to see. Fortunately, there are loads of tools to help you improve your website’s appearance.

For those of you who love the feel of a book, two good ones about building websites are *The Unofficial Guide to Starting a Business Online* (Wiley) by Jason R. Rich and *Entrepreneur* magazine’s startup guide.
For a successful website, follow these general dos and don’ts of site design.

**Do:**
- Make your site easy to navigate.
- Use a consistent look, layout, design and feel throughout your site.
- Make sure your website works with all the popular web browsers (Explorer, Safari, Foxfire, Chrome, etc.).

**Don’t:**
- Use text and color combinations that are too busy or distracting. Anything that makes your site confusing or hard to read should be eliminated immediately.
- Allow the content or links on your website to become outdated; update, fine-tune and proofread regularly.

No. 1819, *Online Business*, by Robert McGarvey and Melissa Campanelli (available at smallbizbooks.com). They both give detailed, hands-on advice about website design, as well as plenty of helpful dos and don’ts.

**Finding the Host with the Most**

Now that you have your site’s design and content creation well underway, the next step is publishing your site on the net. For this, you have three basic options. The first is to host it yourself on a computer that can be dedicated as a web server (or a computer that’s permanently connected to the internet) and has a broadband internet connection. This will prove costly to set up and maintain. For most online businesses, this isn’t the best option, at least in the beginning.
The second option is to use an established and reputable web hosting company, which stores and manages websites for businesses, among other services. There are several large and well-established web hosting companies that cater to a worldwide audience, including Yahoo!, Google and GoDaddy.com.

Some companies, however, prefer local, small-hosting providers, since they offer a direct contact—especially important if your site goes down. Most of these companies also offer domain name services, which we mentioned above, so you can sign up when you choose your name.

A third option—and the most popular (as well as least expensive)—is to use a website turnkey solution. As we mentioned above, this is a company that provides all the site development tools and hosting services in one easy-to-use, low-cost, bundled service, which is entirely online-based. In other words, to create, publish and manage your website, you don’t need to install any specialized software, and no programming is required. Using an internet search engine, enter the phrase “website turnkey solution” or “e-commerce turnkey solution.” Also, check out what’s offered by Yahoo!, Google, GoDaddy.com and eBay.com.

Whether buying from a large or small provider, basic hosting service—along with standards like domain name registration and e-mail accounts—starts at about $10 per month but can go up considerably, depending on your needs.

Still not sure which host to choose? Log on to Compare Web Hosts (comparewebhosts.com), where you can compare hosts based on price. Other variables include amount of disk space allocated to you, available bandwidth, number of e-mail services offered, customer service support
availability, database support and setup fees. For even more information, check out CNET Editors’ web hosting guide at reviews.cnet.com. Under the “Internet Access” menu, click on “Web Hosting,” followed by “Most Popular Hosts.”

How much disk space do you need to store your website? Generally, 1MB can hold several hundred text pages, fewer pages when images and multimedia content is included. Web hosts typically offer between 10MB and 50MB of free storage. The better web host contracts offer more than 100MB of disk space, which should be adequate for most situations. If you’re unsure how much disk space or bandwidth you need, check with your website designer or computer consultant before you sign on a web server’s dotted line.

**Ka-ching**

The best part of e-commerce is that customers do the work while you make the sales. You’ve probably noticed that companies of all sizes, from SOHOs to the Fortune 500, use sticks and carrots to encourage web usage vs. telephone support for all sorts of transactions. Every time you serve yourself on the internet, whether it’s to purchase an airline ticket, a can of cat food, or 100 shares of stock, you’ve saved the seller money on salaries and marketing costs.

**AHA!**

Although people have gotten increasingly comfortable with the internet as a secure place for credit card transactions, a little reassurance doesn’t hurt. Have whoever sets up your shopping cart component provide a message to customers that details your company’s policy for protecting credit card information and customer/client privacy.

**WARNING**

You can create the most incredible website in the history of the internet and then incorporate cutting-edge content, but if your text is filled with grammatical errors, misspelled words, inappropriate language or misused words, it will immediately destroy your reputation and credibility. Make sure you have your site edited and proofread before you launch it.
and, ultimately, office space and phone charges. Nevertheless, business owners should consider carefully how many sales support services they want to handle themselves.

In fact, many e-commerce entrepreneurs turn to the web hosting companies we mentioned above to solve all their e-commerce needs, such as handling credit card transactions, sending automatic e-mail messages to customers thanking them for their orders, and forwarding the order to them for shipping and handling—and of course, domain registration and hosting.

Another option is to incorporate an electronic shopping cart module, which allows people to place their orders online and process their credit card payment transactions. A site using a shopping cart module should have these four components:

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**KEEPING UP APPEARANCES**

Unless you’re careful when designing and programming your website, it might behave differently to different people. This is because web browsers (the software that enables net users to navigate the web) differ somewhat in how the websites they access perform. Make sure your website is fully compatible with Explorer, Safari, Firefox and Chrome, which are the most popular web browsers. Also make sure the content works well and looks good on the screen of a cell phone or wireless PDA, such as a BlackBerry or iPhone.

So how do you know how your site is behaving? Whenever you have the chance to use computers with different browsers, check your site. Note differences in appearance, ease of navigation and speed. Be sure to check compatibility issues with all browsers (and all versions of each browser) before launching your site. Nothing destroys your credibility like computer mishaps.
1. **Catalog.** Customers can view products, get information and compare prices.

2. **Shopping cart.** The icon works like the real thing. It tracks all the items in the basket and can add or delete items as the customer goes along. It’s like an online order form.

3. **Checkout counter.** The shopper reviews the items in her cart, makes changes and decides on shipping preferences, gift-wrapping and the like.

4. **Order processing.** The program processes the credit card (or payment option), verifies all information, and sends everything to the database.

**Final Check**

You’re now just about ready to launch your online business (or the online component to your traditional business). Here’s a checklist to keep you on track:

- Keep your online and e-commerce strategy in focus.
- Put full contact information on your homepage.
- Make sure your online message is clear.
- Keep graphics clean and eye-catching.
- Make sure your website is free of glitches, typos, and dead ends that frustrate visitors.
- Ensure your site meets its objectives.
- Enable visitors to get information quickly and easily.

**AHA!**

Here’s another idea to give your customers peace of mind: Look into third-party certification seal programs that let you post a symbol to signify that your website is using effective privacy practices. Leading firms offering these programs are the Better Business Bureau Online (bbb.org) and TRUSTe (truste.org). Or you could display the VeriSign seal, which verifies that your business has been approved to protect confidential information with industry-leading SSL encryption.
Make sure your website meshes with the rest of your business.

Once your website is up and running, it’s time to get to the really important jobs. The first is getting visitors to your site (generating traffic), followed by encouraging them to become paying customers. Promoting and advertising your site properly, and on an ongoing basis, will be essential for its success. To learn how to do all this and more, turn to Chapter 34.
These are exciting times for mobile entrepreneurs. In the past few years alone, we’ve seen laptop computers become smaller and far more powerful, and we’ve seen clunky cell phones transform from being devices simply for talking into sleek smartphones capable of a wide range of wireless interactivity. In addition, the cost of traditional long-distance phone service has plummeted, and the option to use the internet as a phone (using VoIP) has become extremely viable for saving a fortune on calls (as well as making video conferencing an affordable option for everyone).

Thanks to the wireless web, we can connect to the internet anywhere and anytime and have a high-speed connection from a laptop computer, netbook, smartphone or wireless PDA. Even as this book was being written, a major technological advancement—the iPad—was announced by Apple, which will no doubt
once again change how businesspeople communicate and stay connected from virtually anywhere, whether it’s through e-mail, instant messaging (IM), online social networking, or some other online-based application.

While the technology that allows us to communicate more effectively is becoming increasingly powerful, the price for all this power is decreasing. Today, just about any startup entrepreneur can afford the latest BlackBerry or iPhone, netbook or laptop with wireless connectivity, or a new iPad tablet. These technologies allow us to talk, video conference, e-mail, IM or communicate in ways never before possible—from anywhere we happen to be. We’re no longer held down by cables or phone lines or the need to find Wi-Fi hotspots or electrical outlets. We can conduct business as efficiently as if we were sitting at our office desk.

**Do Your Homework**

Yes, the technology to do these incredible things exists, but it’s your responsibility to discover what’s out there, then determine the best ways to use it to make you more productive—and competitive. Everyone’s needs are different. While a netbook might be the ultimate solution for one person, a full-powered laptop computer or the latest Apple iPad might be a more useful tool for someone else.

Once you pinpoint which technology is best for you, it’s up to you to become proficient using that equipment. For some, overcoming the learning curve associated with the latest technologies, as well as an inherent fear of them, is a debilitating hindrance. In order to ensure your success in today’s business world, you must possess the knowledge, skills and experience to fully use the latest emerging technologies and the well-established ones.
The best way to acquire this knowledge and proficiency is to read the equipment manuals, visit related websites that offer interactive tutorials, and then invest some time in using your new equipment. For example, before loading your phone with crucial work-related data, spend a few days actually using all its features without the fear of corrupting or losing important information.

As you invest the time and energy to learn about the latest tools, don’t just buy the hottest gadget so your colleagues, clients and customers will be impressed. Focus on which of these technologies will make you more organized, efficient, productive, and available to current and prospective customers. Determine which mobile technology will be the biggest time and money saver. To accomplish this goal, you’ll need to study your current work habits and how you spend your time, then choose appropriate technologies so you can stay compatible and competitive in today’s fast-paced work environment.

**Just the Beginning**

There are so many different technologies out there that can be used for communicating and staying connected, it’s impossible to write about all of them or to focus on all the different ways they can be used in conjunction to make you better and more efficient.
For example, if you travel a lot for your business, you can have one single phone number that follows you anywhere in the world, or that rings in certain places at certain times of the day or night. If you’re not available to answer the phone, the caller can automatically be sent to voice mail, and that message can be listened to at your convenience or automatically translated into an e-mail message and sent to your smartphone, laptop computer or iPad. Many phone service companies offer “Follow Me” functionality, including Google Voice (google.com/voice) and Vonage (vonage.com).

Likewise, if someone needs to send you a fax, you no longer have to sit at your office next to the fax machine waiting for it to ring. With a virtual fax machine (like eFax.com), you can receive faxes as e-mail messages (in PDF format, for example), and access those incoming faxes from anywhere, plus print them from your computer. You can also send a fax to any traditional fax machine directly from your word processor or web browser. That is, if an e-mail message or IM won’t suffice.

Your cell phone, smartphone, notebook computer, netbook or iPad can handle many tasks: It can be used as a plain old telephone or as a full-featured voice-mail system that also sends/receives e-mails, faxes, and instant messages, or in some cases, allows for real-time video conferencing . . . and that’s just the beginning.

**Talk Is Cheap**

The kind of productivity boom that personal computers and other office machines brought to business in the 1980s and '90s are antiquated. Technological advancements in the 21st century offers us cheap home and office phone systems, powerful mobile smartphones,
mobile broadband (for high-speed internet access from virtually anywhere), plus various kinds of text messaging and video communications. In fact, research shows that more and more people are giving up their traditional landlines in favor of using wireless cell phone technology altogether as their primary home or office phone line(s).

And why wouldn’t they—the days of paying a high per-minute fee for local or long-distance phone service are almost gone entirely. Whether you use a landline or cell phone, most service plans these days offer unlimited local and long-distance calling for a flat rate (typically between $30 and $100 per month). Thus, from a business perspective, your telecom budget line item went from a variable to a fixed expense. Add in plummeting telecom costs, and you have what amounts to cold,

within the last five years, we’ve seen a dramatic change in people’s work habits. Thanks to all this mobile technology, work is being performed in some unusual places. The Dieringer Research Group, for example, recently reported that America’s 135 million workers have stepped out of a traditional office setting (at least some of the time) and have performed their daily work functions from the following places:

■ 45.1 million from home
■ 24.3 million at client or customer businesses
■ 20.6 million in an automobile
■ 16.3 million while on vacation
■ 7.8 million on a train or airplane

Of the more than 45 million Americans who work from a home office, these people say they have three to four regular workplaces.
hard cash in your pocket, plus much greater communications tools at your disposal.

Even the cost of internet access has dropped significantly in recent years, thanks to DSL, broadband, FIOS, and wireless 3G and 4G technologies. For a flat monthly fee, anyone can have unlimited internet access from their home, office or mobile device, usually for well under $50 per month.

**Which Smartphone Is the Smartest?**

Just about all cell phones have the ability to send and receive text messages and surf the web. However, it’s the true smartphones and wireless PDAs, such as Apple iPhones, BlackBerrys and Google phones, that offer truly powerful and seamless voice and data communications capabilities—all from a single handheld device.

You can use a smartphone for a wide range of tasks, including sending/receiving calls, voice mails, e-mails, text and instant messaging. You can also surf the web, and use it as a powerful GPS navigational system as well as a personal productivity tool for managing your contacts, schedule, expenses and other data.

Currently, you can buy more than 140,000 third-party apps for the iPhone on the Apple iTunes App Store. Thousands of unique apps are also available for BlackBerrys and Google smartphones, allowing users to customize their devices based on the features and functionality they want and need.

Choosing which smartphone is right for you is a matter of personal preference, based on your unique work habits, communication and connectivity needs, and budget. Once you know how you’ll be using your smartphone, consider what features and functionality you want and need, then take a look at the various iPhone, BlackBerry, Google

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de-FYI

Don’t have a cellular wireless card for your laptop computer yet, and need Wi-Fi web access while on the-go? Most hotels, airports, coffee shops and bookstores offer free or fee-based Wi-Fi. You can quickly find local Wi-Fi hotspots throughout the United States or abroad by visiting jiwire.com, wi-fihotspotlist.com, wififree spot.com or wifinder.com.
and other smartphone models available. (If you’re going to have employees, consider compatibility issues as well to ensure data from your smartphone will be transferable to your staff and vice versa.)

Also, consider the phone’s design, battery life, screen readability, keyboard size (or virtual keyboard), overall size and weight, and price. Also, ask about repair/replacement service plans, insurance options, and the warranty.

While you should certainly consider the cost of the device when shopping for a smartphone, you’ll also want to look at:

- What the various cell phone carriers (AT&T, Sprint, Verizon, T-Mobile, etc.) offer in terms of monthly service plans
- The cost of the monthly service plan (with all of the extras you’ll want and need, such as unlimited talk minutes, data usage, and text messaging)
- The length of the service contract you’ll need to commit to (usually one or two years); if you cancel prematurely, you’ll be charged an early termination fee between $150 and $300, depending on the carrier
- The level of national and international roaming service offered, based on the areas where you’ll use your smartphone the most. For example, even the most advanced wireless carriers don’t yet offer true high-speed wireless internet coast to coast. Depending on the carrier, the latest 3G or 4G service may only be available in or near major cities. Be sure to study the carrier’s most current service coverage map.

**At Your Service**

When choosing a service plan for your smartphone, shop around for the best deals based on the functionality you actually want and need. If, for example, you need a lot of talk time but don’t plan to send/receive text messages or surf the web too much, the service plans you should look at will be very different from someone who relies on their phone to surf the web and check e-mail while on the go.
Your comparison shopping should focus on three components—voice, data and text messaging. For a voice plan, things to consider include how many minutes per month of talking (sending or receiving voice calls) a plan includes and whether or not the plan differentiates between peak and off-peak minutes (based on the time of day or day of the week calls are sent/received). You’ll want to look for a voice plan that includes unlimited local and long-distance (domestic) calls 24/7.

As for the data component, some carriers charge based on the amount of data sent/received. This is the least desirable option. Instead, either choose a data plan that includes a predetermined amount you can send/receive per month, such as 25MB, or choose an unlimited plan for a flat fee, which is usually the best deal for business users.

Finally, most carriers will either charge you per text message sent/received or offer a plan that allows for a predetermined number of text messages to be sent/received. The best option is a plan that offers unlimited texting each month.

To stay competitive, many carriers now offer unlimited voice, data and text plans for a flat monthly fee of $69 to $130 per month. However, there are also additional charges you may incur for various extras.

For example, most U.S.-based cell phones and smartphones will automatically work when you travel overseas, thanks to international roaming. However, unless you have an international roaming plan, you’ll be charged $2 to $5 (or more) per minute to make or receive calls while overseas, plus you’ll be charged up to $1 for each text message sent/received, and up to $20 (or more) per megabyte of data sent/received. If you plan to travel overseas and use your cell phone or

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To save money on cell phone usage and international roaming fees when traveling overseas, consider purchasing an inexpensive, prepaid cell phone in the country you’re visiting. This means you pay for the phone and a predetermined number of talk minutes or data usage, then you can pay as you go for service and can cancel it at any time.
smartphone, inquire about international roaming packages, which can save you a bundle if activated before you leave the country.

As of January 2010, if you want to own a popular iPhone, for example, you’re forced to use AT&T Wireless as your service carrier and sign a two-year service contract. The iPhone service plans are higher than competitors, averaging about $100 per month for a generous voice plan with unlimited data service; unlimited texting is extra.

While AT&T Wireless also offers several BlackBerry and Google smartphones, these phones are also available from competitors, like Verizon, T-Mobile and Sprint, so service plans are more competitively priced. One popular wireless carrier, for example, offers unlimited voice, data and texting for a flat fee of $69 per month. However, this all changes fast—by the time you read this, the price will probably be lower, plus similar lower-priced plans will be offered by most or all of the major wireless carriers.

**Wireless Wonders**

All laptop computers and smaller netbooks allow users to connect to the web via Wi-Fi (assuming a Wi-Fi hotspot is available) by connecting an internet cable to the computer directly or via an optional wireless internet card.

A wireless internet card is a cell phone modem for your computer. It allows the computer to connect to the internet via a cell phone connection, so no Wi-Fi hotspot is required. You just need to be within the service area of a wireless data provider with whom you have a data plan.

All the wireless service providers—AT&T, Sprint, Verizon, T-Mobile, etc.—offer wireless modem cards for laptop and netbook computers (if the computer doesn’t have the technology built in). These modems
connect to the computer, usually via a USB connection. To gain wireless access to the web, you’ll need to sign up for a provider’s data-only service plan.

You can choose a plan that offers a predetermined amount of data that can be sent/received per month, such as 25MB, or you can opt for an unlimited data plan, which is typically your best bet. The cost will be $39 to $89 per month, but prices for wireless data service are dropping

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**INTRODUCING . . . THE IPAD**

The Apple iPad is a handheld tablet device that was released in 2010. It allows for wireless web surfing and the use of a wide range of other internet-related applications. Plus it runs all third-party Apple iPhone apps and iPad-specific apps from third-party developers—all from a device that’s larger than a smartphone but smaller than a netbook or laptop.

The iPad, which starts at $499, connects to the web via any Wi-Fi hotspot. However, for a bit more money, you can purchase an iPad that also offers 3G connectivity, meaning you can access the web using a wireless internet connection offered by a major carrier, such as AT&T, for a monthly fee of less than $30. (Best part: No long-term service contract is required.)

While the iPad isn’t a phone, it offers the ability to surf the web with a large screen from almost anywhere. The unit weights just 1.5 pounds, and it’s less than 0.5 inches thick, so it’s incredibly lightweight and portable. There’s also a virtual keyboard, so you don’t need a separate keyboard or mouse to use the unit.

Like a netbook or smartphone, the iPad won’t meet everyone’s needs; however, it’s a powerful business tool that will help many people become more productive, accessible, organized and competitive in today’s business world.
## Wireless Protocols

When it comes to communicating wirelessly, you’ll hear a lot of buzzwords as technology evolves and changes. Here are some of the current and popular wireless protocols used in business today.

<table>
<thead>
<tr>
<th>Protocol</th>
<th>Range</th>
<th>Bandwidth</th>
<th>Common Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>3G Cellular</td>
<td>&gt;30 miles</td>
<td>Up to 2.4Mbps</td>
<td>High-speed voice and data transmission via cell phones, smartphones, wireless PDAs and wireless modems (used with laptop computers); replaced slower 2G technology, which is pretty much outdated at this point</td>
</tr>
<tr>
<td>4G Cellular</td>
<td>&gt;30 miles</td>
<td>Up to 100Mbps</td>
<td>Even higher speed voice and data transmission via cell phones, smartphones, wireless PDAs and wireless modems (used with laptop computers)</td>
</tr>
<tr>
<td>802.11g</td>
<td>300 feet</td>
<td>Up to 54Mbps</td>
<td>Wireless LANs (including Wi-Fi hotspots and home wireless networks)</td>
</tr>
<tr>
<td>202.11n</td>
<td>300 feet</td>
<td>Up to 300Mbps</td>
<td>Wireless LANs (including Wi-Fi hotspots and home wireless networks)</td>
</tr>
<tr>
<td>Bluetooth</td>
<td>300 feet</td>
<td>700Kbps</td>
<td>Short-range audio and data transmission for cell phones, computers, digital cameras, etc; used for connecting a cell phone to a wireless headset, or a computer to a printer without cables</td>
</tr>
</tbody>
</table>
fast. Like cell phone and smartphone service plans, you’ll be required to sign a one- or two-year service contract.

Adding a wireless modem and service plan to your laptop allows you to surf the web (via a high-speed 3G or 4G wireless connection) from anywhere there’s wireless data service from your provider. You don’t need to hunt down a Wi-Fi hotspot or connect your computer to a modem. This gives you tremendous freedom to access the web anywhere, any time.

I’m IMing
Instant messages (also referred to as IMing) allow people to communicate in real time without speaking. While cell phones allow us to roam freely and wirelessly, they’re still used primarily for real-time conversations. Other internet-based communications methods let the two halves of the conversation proceed at the pace preferred by each participant. Welcome to the world of instant messages (IMs) and text messages. These are two different technologies that have similar uses.

IMing is used while you’re online and surfing the web to instantly send text-based messages (and potentially attached files or links) to a recipient, who receives your IM instantly on his/her desktop computer, laptop, netbook, iPad or smartphone (assuming it’s connected to the web). To use IMs, both the sender and the receiver must participate in
the same (or on a compatible) IM service, such as AIM (America Online Instant Messaging), Yahoo Messenger or MSN (Microsoft) Messenger. A real-time, text-based conversation can be held between two or more people.

The benefit to IMing is that you can participate in an unlimited number of conversations simultaneously, plus it’s quicker than picking up the phone or sending a full-length e-mail. Text messaging works in much the same way as IMing; however, to send and receive a text message, you use a cell phone or smartphone. You can send a text message to anyone with a cell phone, as long as you know their phone number, regardless of what carrier they use, and assuming you both have a text messaging plan as part of your cell phone service.

Recently, technologies have become available allowing texting and IMing to work interchangeably. Here’s a glance at the top-level features found in most IM services:

- Instant text chats between two or more online buddies
- File/image attachments
- IM-to-mobile phones
- PC-to-PC IP voice calls worldwide
- Calls to traditional phones (potential extra charge)
- Calls from traditional phones (potential extra charge)
- Voice mail and video voice mail (potential extra charge)
- Video calls
- Videoconferencing among multiple participants

**Web Calling**

Instead of using traditional phone lines to make and receive calls, anyone with any type of high-speed internet connection can take advantage
of VoIP technology to make and receive calls from the web. Calls originating from the web can be placed to traditional phone lines, often at a fraction of the cost of making a traditional long-distance call (and sometimes free of charge, depending on the service you use).

Using a VoIP service gives you access to a wide range of calling services and features, from caller ID and voice mail to call forwarding and conference calling. As long as you have a stable, high-speed internet connection, the calls will be clear.

There are many VoIP services that offer different types of features of interest to entrepreneurs. For example, there’s Skype (skype.com), MagicJack (magicjack.com) and Vonage (vonage.com). You can find a worldwide list of VoIP services by visiting voipproviderslist.com.

For people who need to make international calls, either from the United States to an overseas country or who travel overseas and need to call home to the United States, VoIP offers a tremendous savings over traditional phone or cellular phone services. In fact, using VoIP, you can typically call anywhere in the world, any time, for less than a few cents per minute (and sometimes for free).

With VoIP, you’re assigned your own phone number, plus you can receive calls at that number any time you’re connected to the internet—from anywhere—or have calls forwarded to your cell phone or a landline. Most VoIP services charge a flat monthly fee up to $30 for unlimited service, or waive the monthly fee but charge a low, per-minute fee per call.

**It’s Your Turn**

Technology is changing rapidly and almost daily. New devices and tools are constantly being introduced. New software upgrades to existing devices, such as the iPhone or BlackBerry, are allowing for greater functionality. Plus, prices are dropping fast!

If you want to be competitive in today’s business world, it’s no longer a matter of whether you need a smartphone and/or a netbook, laptop (with wireless capabilities) or an iPad—it’s a matter of which
model you need right now and how you’ll be able to get the most use out of each technology or device as you juggle your daily work and personal responsibilities, plus deal with the growing need to be accessible virtually 24/7.

This chapter offered just a short introduction to the communications and connectivity technology that’s available. How you use this technology is up to you! So put on your thinking cap, be creative, and discover ways you can use it to become more productive, accessible, and competitive in today’s business world.

New technologies and phone models are introduced almost every month. One of the best ways to learn about the latest gadgets, gizmos and technologies businesspeople use to communicate is to visit a consumer electronics superstore, such as Best Buy, or at least two different cell phone stores (representing different service providers, like AT&T Wireless, Verizon, Sprint, and/or T-Mobile). If you’re interested in Apple products (e.g., the iPhone or iPad), visit an Apple store. By visiting a retail store that showcases the latest products, you can try them out firsthand, learn about their features, and more easily compare pricing.

Having a handheld device can keep you connected 24/7, and in the spirit of increased productivity, it’s easy to get into the habit of constantly checking your e-mails and voice mails, making it difficult to disconnect from your work-related responsibilities at the end of the day. As you incorporate these new technologies into your life, also develop the discipline to use them in moderation.
All systems are go. You’re ready to launch your new business.

To make sure the launch is successful, Part 6, “Market,” shows you how to spread the word about your company. First, you’ll learn how to create a brand identity that will get your new business noticed. Then, you’ll find out how to create a marketing and advertising campaign that works . . . without spending a fortune. From print ads and direct mail to TV and radio, we share smart strategies to build buzz about your business. You’ll also learn about the single best way to promote your business: public relations. From special events and community projects to media coverage, we show you dozens of ways to get your business noticed—most of them virtually free!

If the idea of selling scares you, you’re not alone. That’s why we provide everything you need to know to sell like a pro. Learn how to get over your fear of cold calls, techniques for overcoming objections, how to spot hot prospects and how to close the sale. Once you’ve made the sale, the game isn’t over: You’ve got to keep the customer coming back.
Our secrets to great customer service will give you the edge you need to win repeat business . . . over and over again.

No marketing and advertising plan is complete today without including the internet. In Part 7, “Engage,” we introduce you to the brave new world of social media and online advertising and marketing. We start by showing you how to get visitors to your website, keep them there, and, when they leave, make sure they return for more. From search engine marketing and paid search services to e-mail marketing and affiliate promotions, you’ll learn valuable tips and techniques to make your website a roaring success.

What’s all the buzz about social media and why should you be listening? Social media isn’t just changing the conversation between businesses and customers; it’s also changing the way brands are marketed. We show you how to use social tools to network with potential customers and connect and engage with your audience—because in today’s marketing landscape, that’s how brands are built. We cover all the social sites you’ve probably heard of, such as Twitter, LinkedIn and Facebook, plus numerous other tools to help you reach out and connect with your target audience. The best part is that most social tools don’t cost a dime—just a little of your time!

If you’re doing everything right, you’ll be dealing with a bundle of money. In Part 8, “Profit,” we show you the strategies to make the most of your money. Whether or not you’re a math whiz, you’ll want to read our bookkeeping basics, which contain everything you need to know to keep track of your finances. You’ll learn the accounting methods that can make a difference come tax time, what records to keep and why, and whether to computerize or do it by hand. Check out our step-by-step look at creating financial statements, income statements, cash-flow statements and other important indicators that help you measure your money. Then learn ways to manage your finances, including secrets to pricing your product or service; how to get short-term capital infusions when you’re low on cash; how to determine your overhead, profit margin and more. We’ll answer your most burning question—
how much (and how) to pay yourself. We also show you how to stay out of trouble when the tax man comes calling. Get the inside scoop on payroll taxes, personal vs. corporate tax returns and what to file when. We'll also cover what you can deduct...and what you can't.

Finally, at the end of the book, you'll find a handy glossary of terms in case you need a refresher on any of the concepts we've covered in the book, as well as an appendix chock full of helpful business resources.
part 6

MARKET

chapter 29  Brand Aid
           Building a Brand

chapter 30  Marketing Genius
           Advertising and Marketing Your Business

chapter 31  Talking Points
           How To Promote Your Business

chapter 32  Sell It!
           Effective Selling Techniques

chapter 33  Now Serving
           Offering Superior Customer Service
You’re really excited about your concept for a new product or service. But do you have a potential brand in the making?

Unfortunately, it’s a question too many small-business owners ask far too late, or never ask at all—not a good idea in a world full of savvy consumers and big companies that have mastered the branding game. Great brands are all around us, and it’s no accident they make us think of certain things. Think FedEx, and think overnight delivery. Apple Computer brings to mind cutting-edge products and now, music.

Even celebrities are brands. Would you describe Cary Grant the same way you would Walter Matthau? Their differences—charming vs. grumpy, refined vs. rumpled—helped to define their particular acting “brands” and let the public get a grasp on their personas. Corporate brands are no different. They have their own “personalities.”
We like to categorize everything, whether we’re talking about people, printers or pizza places. Test this theory yourself. What draws you to one local business instead of another selling a similar product? One local restaurant might strike you as cute and inviting; another might make you lose your appetite without setting a foot inside—even though both restaurants serve the same type of food. You’re not alone if you find yourself categorizing each business you pass.

As a startup entrepreneur, you’ll be branding whether or not you’re even trying. If you don’t have a clear idea of what your new company is about, your potential customers will decide on their own—a risky move for a new company without many, or any, customers. You’ll need to have a branding strategy in place before you hang up your shingle. However, before we start strategizing, let’s answer the most basic question of all.

**What Is Branding, Exactly?**

Branding is a very misunderstood term. Many people think of branding as just advertising or a really cool-looking logo, but it’s much more complex—and much more exciting, too.

- *Branding is your company’s foundation.* Branding is more than an element of marketing, and it’s not just about awareness, a trademark or a logo. Branding is your company’s reason for being, the synchronization of everything about your company that leads to consistency for you as the owner, your employees and your potential customers. Branding meshes your marketing, public relations, business plan, packaging, pricing, customers
and employees (the last element is often the most overlooked; read “In The Loop” on page 489 for more on this).

- **Branding creates value.** If done right, branding makes the buyer trust and believe your product is somehow better than those of your competitors. Generally, the more distinctive you can make your brand, the less likely the customer will be willing to use another company’s product or service, even if yours is slightly more expensive. In fact, a recent J.D. Power and Associates web-based survey of nearly 7,500 consumers who purchased or leased a new vehicle within the last six years found 93 percent of them willing to pay more for a brand name. “Branding is the reason why people perceive you as the only solution to their problem,” says Rob Frankel, a branding expert and author of *The Revenge of Brand X: How to Build a Big Time Brand on the Web or Anywhere Else.* “Once you clearly can articulate your brand, people have a way of evangelizing your brand.”

- **Branding clarifies your message.** You have less money to spend on advertising and marketing as a startup entrepreneur, and good branding can help you direct your money more effectively. “The more distinct and clear your brand, the harder your advertising works,” Frankel says. “Instead of having to run your ads eight or nine times, you only have to run them three times.”

- **Branding is a promise.** At the end of the day, branding is the simple, steady promise you make to every customer who walks through your door—today, tomorrow and ten years from now. Your company’s ads and brochures might say you offer speedy, friendly service, but if customers find your service slow and surly, they’ll walk out the door feeling betrayed. In their eyes, you promised something that you didn’t deliver, and no amount of advertising will ever make up for the gap between what

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“Success is often achieved by those who don’t know that failure is inevitable.”

—Gabrielle “Coco” Chanel, founder of Chanel Inc.
your company says and what it does. Branding creates the consistency that allows you to deliver on your promise over and over again.

Building a Branding Strategy

Your business plan should include a branding strategy. This is your written plan for how you’ll apply your brand strategically throughout the company over time.

At its core, a good branding strategy lists the one or two most important elements of your product or service, describes your company’s ultimate purpose in the world and defines your target customer. The result is a blueprint for what’s most important to your company and to your customer.

Don’t worry; creating a branding strategy isn’t nearly as scary or as complicated as it sounds. Here’s how:

■ **Step one: Set yourself apart.** Why should people buy from you instead of the same kind of business across town? Think about the intangible qualities of your product or service, using adjectives from “friendly” to “fast” and every word in between. Your goal is to own a position in the customer’s mind so they think of you differently than the competition. “Powerful brands will own a word—like Volvo [owns] safety,” says Laura Ries, an Atlanta marketing consultant and co-author of *The 22 Immutable Laws of Branding: How to Build a Product or Service into a World-Class Brand*. Which word will your company own? A new hair salon might focus on the adjective “convenient” and stay open a few hours later in the evening for customers who work late—something no other local salon might do. How will you be different from the competition? The answers are valuable assets that constitute the basis of your brand.

■ **Step two: Know your target customer.** Once you’ve defined your product or service, think about your target customer. You’ve
probably already gathered demographic information about the market you’re entering, but think about the actual customers who will walk through your door. Who is this person, and what is the one thing he or she ultimately wants from your product or service? After all, the customer is buying it for a reason. What will your customer demand from you?

- **Step three: Develop a personality.** How will you show customers every day what you’re all about? A lot of small companies write mission statements that say the company will “value” customers

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**IN THE LOOP**

Many companies large and small stumble when it comes to incorporating employees into their branding strategies. But to the customer making a purchase, your employee is the company. Your employees can make or break your entire brand, so don’t ever forget them. Here are a few tips:

- **Hire based on brand strategy.** Communicating your brand through your employees starts with making the right hires. Look to your brand strategy for help. If your focus is on customer service, employees should be friendly, unfappable and motivated, right? Give new hires a copy of your brand strategy, and talk about it.

- **Set expectations.** How do you expect employees to treat customers? Make sure they understand what’s required. Reward employees who do an exceptional job or go above and beyond the call of duty.

- **Communicate, then communicate some more.** Keeping employees clued in requires ongoing communication about the company’s branding efforts through meetings, posters, training, etc. Never, ever assume employees can read your mind.
and strive for “excellent customer service.” Unfortunately, these words are all talk, and no action. Dig deeper and think about how you’ll fulfill your brand’s promise and provide value and service to the people you serve. If you promise quick service, for example, what will “quick” mean inside your company? And how will you make sure service stays speedy? Along the way, you’re laying the foundation of your hiring strategy and how future employees will be expected to interact with customers. You’re also creating the template for your advertising and marketing strategy.

Your branding strategy doesn’t need to be more than one page long at most. It can even be as short as one paragraph. It all depends on your product or service and your industry. The important thing is that you answer these questions before you open your doors.

**Bringing It All Together**

Congratulations—you’ve written your branding strategy. Now you’ll have to manage your fledgling brand. This is when the fun really begins. Remember, FedEx was once a startup with an idea it had to get off the ground, too. Here are some tips:

- **Keep ads brand-focused.** Keep your promotional blitzes narrowly focused on your chief promise to potential customers. For example, a new bakery might see the warmth of its fresh bread as its greatest brand-building asset. Keep your message simple and consistent so people get the same message every time they see your name and logo.

- **Be consistent.** Filter every business proposition through a branding filter. How does this opportunity help build the company’s brand? How does this opportunity fit our branding strategy?
These questions will keep you focused and put you in front of people who fit your product or service.

- **Shed the deadweight.** Good businesses are willing to change their brands but are careful not to lose sight of their original customer base and branding message. Consider Starbucks, which changed the way it made lattes to speed up the process. “You have to give up something to build a brand,” Ries says. “Good brands constantly get rid of things that don’t work.”

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**MANY HAPPY RETURNS?**

It can be hard to put a dollar figure on what you’re getting in return for your investment in branding. Branders talk about this dilemma in terms of “brand equity”: The dollar value your brand generates over decades in terms of the demand it drives and the customer loyalty it creates. Coca-Cola’s brand equity, for example, is estimated in the billions of dollars.

Think about conducting a simple “brand audit” at least once a year. This means looking at how your product or service is marketed and branded (your marketing messages, etc.), analyzing your brand positioning (i.e., asking customers what they think of your brand), and then comparing the two (your branding efforts vs. customer perceptions) to see how well the two connect.

A simple customer survey with questions like “When you think about our company and our product, what words come to mind?” can tell you volumes about the strengths and weaknesses of your branding. A new coffee shop owner, for example, might think she serves the best coffee in town, while convenience or ambience—say, the type of music played over the sound system—turns out to be as much, or more, of a selling point from the customer’s perspective. A brand audit will help keep you on track and help you build on what you already do well.
Read All About It

Luckily, there are tons of books on the topic of branding. Here are just a few of them, along with a major trade magazine:

- *The Business of Brands*. Written by Jon Miller and David Muir and published by John Wiley & Sons, this book discusses creating value around a brand as well as brand strategy.
- *Brandweek*. This trade magazine is a good source of news and information about branding trends. A one-year subscription

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**Branding Checklist**

Test your branding savvy by answering “yes” or “no” to these statements. Hint: The more you answer “no,” the more you’ll need to bone up on your knowledge of branding.

- I know what branding means, exactly.
- I’ve added a simple branding strategy to my business plan.
- I understand the one thing the customer ultimately wants from my product or service.
- I know what our straightforward and consistent message will be to the customer, today and 20 years from now.
- I’ve thought about how my company will ultimately provide value and service to the customer.
- I’ll rely on the company’s brand strategy when hiring future employees.
- The company’s brandmark (logo), packaging, stationery, slogan and approach to customer service all reflect our company’s main promise to the customer.
- I plan to measure the effectiveness of our branding strategy through an annual brand audit.
(including online website access) costs $299. Call (800) 684-1873, or visit brandweek.com to subscribe.


- *Emotional Branding: The New Paradigm for Connecting Brands to People*. Written by Marc Gobe, this book delves into creating a strong brand personality, among other things.

- *The 22 Immutable Laws of Branding: How to Build a Product or Service Into a World-Class Brand*. This Harper Business book by Al Ries and Laura Ries includes tips for branding as well as numerous examples of how successful companies have built their brands.

There’s a lot of work that goes into launching and building a world-class brand, but it pays off. Nike once ran its business out of the back of a car, but now it’s a global brand worth billions of dollars. Think of your fledgling brand as a baby you have to nurture, guide and shape every day so it grows up to be dependable, hardworking and respectable in your customers’ eyes. One day your company’s brand will make you proud. But you’ll have to invest the time, energy and thought it takes to make that happen.
You may know how to build the perfect product or provide excellent service, but do you know how to market your business? If not, all your expertise won’t help keep your business afloat. Without marketing, no one will know your business exists—and if customers don’t know you’re there, you won’t make any sales.

Advertising doesn’t have to mean multimillion-dollar TV commercials. There are plenty of ways to market your business that are affordable or even free. All it takes is a little marketing savvy and the dedication to stick with a year-round program that includes a solid mix of proven tactics.

“If you can dream it, you can do it.”

—Walter Elias Disney, founder of Walt Disney Co.
Creating a Marketing Plan

Everyone knows you need a business plan, yet many entrepreneurs don’t realize a marketing plan is just as vital.

Unlike a business plan, a marketing plan focuses on winning and keeping customers. A marketing plan is strategic and includes numbers, facts and objectives. Marketing supports sales, and a good marketing plan spells out all the tools and tactics you’ll use to achieve your sales goals. It’s your plan of action—what you’ll sell, who will want to buy it, and the tactics you’ll use to generate leads that result in sales. And unless you’re using your marketing plan to help you gain funding, it doesn’t have to be lengthy or beautifully written. Use bulleted sections, and get right to the point.

Here’s a closer look at creating a marketing plan that works.

**POSITION POWERS**

The right image packs a powerful marketing punch. To make it work for you, follow these steps:

- Create a positioning statement for your company. In one or two sentences, describe what distinguishes you from your competition.
- Test your positioning statement. Does it appeal to your target audience? Refine it until it speaks directly to their wants and needs.
- Use the positioning statement in every written communication to customers.
- Integrate your company’s positioning message into all your marketing campaigns and materials.
- Include your team in the positioning effort. Help employees understand how to communicate your positioning to customers.
Step One: Begin with a Snapshot of Your Company’s Current Situation, Called a “Situation Analysis”

This first section of the marketing plan defines your company and its products or services, then shows how the benefits you provide set you apart from your competition.

Target audiences have become extremely specialized and segmented. For example, there are hundreds of special-interest magazines—each targeted to a specific market segment. No matter your industry, from restaurants to professional services to retail clothing stores, positioning your product or service competitively requires an understanding of your niche market. Not only do you need to be able to describe what you market, but you must also have a clear understanding of what your competitors are offering and be able to show how your product or service provides a better value.

Make your Situation Analysis a succinct overview of your company’s strengths, weaknesses, opportunities and threats. Strengths and weaknesses refer to characteristics that exist within your business, while opportunities and threats refer to outside factors. To determine your company’s strengths, consider the ways that its products are superior to others, or if your service is more comprehensive, for example. What do you offer that gives your business a competitive advantage? Weaknesses, on the other hand, can be anything from operating in a highly saturated market to lack of experienced staff members.

Next, describe any external opportunities you can capitalize on, such as an expanding market for your product. Don’t forget to include any external threats to your company’s ability to gain market share so that succeeding sections of your plan can detail the ways you’ll overcome those threats.
Positioning your product involves two steps. First, you need to analyze your product’s features and decide how they distinguish your product from its competitors. Second, decide what type of buyer is most likely to purchase your product. What are you selling—convenience? Quality? Discount pricing? You can’t offer it all. Knowing what your customers want helps you decide what to offer, and that brings us to the next section of your plan.

**Step Two: Describe Your Target Audience**

Developing a simple, one-paragraph profile of your prospective customer is the second step in an effective marketing plan. You can describe prospects in terms of demographics—age, sex, family composition, earnings and geographic location—as well as lifestyle. Ask yourself the following: Are my customers conservative or innovative? Leaders or followers? Timid or aggressive? Traditional or modern? Introverted or extroverted? How often do they purchase what I offer? In what quantity?

If you’re a business-to-business marketer, you may define your target audience based on their type of business, job title, size of business, geographic location, or any other characteristics that make them possible prospects. Are you targeting the owners of businesses with 25 or fewer employees or mid-level managers in Fortune 100 companies? No matter who your target audience is, be sure to narrowly define them in this section, because it will be your guide as you plan your media and public relations campaigns. The more narrowly you define your target audience, the less money you’ll waste on ads and PR in poorly targeted media and the unqualified leads they would generate. (Chapters 6 and 7 explain in detail how to define your target customer.)

**Step Three: List Your Marketing Goals**

What do you want your marketing plan to achieve? For example, are you hoping for a 20 percent increase in sales of your product per quarter? Write down a short list of goals—and make them measurable so that you’ll know when you’ve achieved them.
Step Four: Develop the Marketing Communications Strategies and the Tactics You’ll Use

This section is the heart and soul of your marketing plan. In the previous sections, you outlined what your marketing must accomplish and identified your best prospects; now it’s time to detail the tactics you’ll use to reach these prospects and accomplish your goals.

A good marketing program targets prospects at all stages of your sales cycle. Some marketing tactics, such as many forms of advertising, public relations and direct marketing, are great for reaching cold prospects. Warm prospects—those who have previously been exposed to your marketing message and perhaps even met you personally—will respond best to permission-based e-mail, loyalty programs and customer appreciation events, among others. Your hottest prospects are individuals who’ve been exposed to your sales and marketing messages and are ready to close a sale. Generally, interpersonal sales contact (whether in person, by phone or e-mail) combined with marketing adds the final heat necessary to close sales.

To complete your tactics section, outline your primary marketing strategies, then include a variety of tactics you’ll use to reach prospects at any point in your sales cycle. For example, you might combine outdoor billboards, print advertising and online local searches to reach cold prospects but use e-mail to contact your warm prospects. Finally, you can use one-on-one meetings to close the sale. Don’t overlook complimentary materials that support sales: For instance, if you plan to meet with prospects to follow up on leads you’ve generated, you’ll need brochures and presentation materials.

To identify your ideal marketing mix, find out which media your target audience turns to for information on the type of product or service you sell. Avoid broad-based media—even if it attracts your target audience—if the content is not relevant. The marketing tactics you choose must reach your prospects when they’ll be most receptive to your message.
**Market Planning Checklist**

Before you launch a marketing campaign, answer the following questions about your business and your product or service:

- Have you analyzed the total market for your product or service? Do you know which features of your product or service will appeal to different market segments?

- In forming your marketing message, have you described how your product or service will benefit your clients?

- Have you prepared a pricing schedule? What kinds of discounts do you offer, and to whom do you offer them?

- Have you prepared a sales forecast?

- Which media will you use in your marketing campaign?

- Do your marketing materials mention any optional accessories or added services that consumers might want to purchase?

- If you offer a product, have you prepared clear operating and assembly instructions if required? What kind of warranty do you provide? What type of customer service or support do you offer after the sale?

- Do you have product liability insurance?

- Is your packaging likely to appeal to your target market?

- If your product is one you can patent, have you done so?

- How will you distribute your product?

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**Step Five: Set Your Marketing Budget**

You’ll need to devote a percentage of projected gross sales to your annual marketing budget. Of course, when starting a business this may mean using newly acquired funding, borrowing or self-financing. Just bear this in mind—marketing is absolutely essential to the success of
your business. And with so many different kinds of tactics available for reaching out to every conceivable audience niche, there’s a mix to fit even the tightest budget.

As you begin to gather costs for the marketing tactics you outlined in the previous section, you may find that you’ve exceeded your budget. Not to worry. Simply go back and adjust your tactics until you have a mix that’s affordable. The key is to never stop marketing—don’t concern yourself with the more costly tactics until you can afford them.

So what should you spend on marketing? There’s no hard-and-fast guideline. In fact, the amount varies based on your industry, the amount of competition you must overcome, and the type of media you have to use to reach your audience. A particularly complex message will also require a bigger marketing budget because prospects will need to be guided through the education phase, which involves more advertising and an increase in the repetition of your message. One study showed that major advertisers with well-established brand names, including General Mills, Kodak, Dunkin’ Donuts and Kraft Foods, spend an average of 11.6 to 12.4 percent of sales on marketing. On the other hand, many successful small businesses that are competing for brand recognition and market share budget approximately 15 to 19 percent of sales.

Where to Advertise

Once you know your target audience, it’ll be easier to determine which media will work well for you. Much of this is just common sense, based on your product or service, method of sales and audience.

Dream the dream. Your marketing plan should include a “blue sky” section in which you put your feet back and look at where you think you’ll be in a couple of years. Especially in small businesses, it’s a waste of time to formulate marketing thoughts that go out more than two or three years. But dreams are important—and they can be fun, too.
Sure, it would be great if you could afford to buy a full-page color ad in *Time* magazine or a 60-second commercial during the Super Bowl. But in addition to being beyond your budget, such ads aren’t even the most effective way to go for a small company. Small companies succeed by finding a niche, not by targeting every Tom, Dick and Harry. (Remember the “Choose Your Target” chapter in Part 2?) Similarly, you need to focus your advertising as narrowly as possible on the media that will reach your customers. Your customers’ location, age, income, interests and other information will guide you to the right media.

Suppose you ran a business selling model train supplies nationwide online and by mail order. It would make sense to advertise in a mix of national specialty magazines, on websites targeting aficionados, and in specialty e-newsletters catering to the hobby rather than advertising in, say, *The New York Times*. On the other hand, if you sold model trains from a hobby shop rather than online or via mail order, the vast majority of your customers would be drawn from your local area. Therefore, advertising in national hobbyist magazines would net you only a few customers. In this case, it would make more sense to advertise in local phone directories (both online and offline), area newspapers or magazines that carry related editorial sections, or by commercials on carefully selected cable TV programming targeting the local area.

Like any aspect of running a business, marketing involves a measure of trial and error. As your business grows, however, you’ll quickly learn which advertising media are most cost-effective and draw the most customers to your company. Here’s a closer look at the different types of advertising methods and tips for succeeding with each.

**Print Advertising**

The print ad is the basic unit of advertising, the fountainhead from which all other forms of advertising spring. Knowing the principles of
creating print ads will help you get results in any other advertising media you use. Print ads have helped launch some of the most successful products and services we know. And there’s no reason they can’t work for you, too—if you observe a few hard-and-fast rules.

Most print ads out there are poorly conceived and, as a result, perform badly. If an ad lacks a strong motivating message, especially in the crowded marketplace of a newspaper or magazine, it becomes a costly lesson—one your business will be lucky to survive. The good news? With so many bad ads out there, if you can put together a good one, you’re way ahead of the game.

Whether you are developing an ad yourself or having someone else craft it for you, make sure it follows the five fundamentals of successful ads.

1. *It should attract attention.* That sounds obvious, but nothing else matters unless you can do this. And that means having a truly arresting headline and visual element.

2. *It should appeal to the reader’s self-interest or announce news.* An ad that takes the “you” point of view and tells readers how they’ll benefit from your product or service piques and keeps their interest. And if, in addition, it has news value (“Announcing a bold new breakthrough in moisturizers that can make your skin look years younger”), your ad has a better than fighting chance.

3. *It should communicate your company’s unique advantage.* In other words, why should the prospect pick your firm over a competitor’s?

4. *It should prove your advantage.* One convincing way to do that is through testimonials and statistics.

5. *It should motivate readers to take action.* This is usually accomplished by making a special offer that “piggybacks” your main sales thrust. Such offers include a free trial, a discount or a bonus.

An ad doesn’t have to do a “hard sell” as long as it is an all-out attempt to attract, communicate with and motivate the reader. That process starts with the single most important element of any ad: the headline.
Headlines That Work

Some of the biggest flops in advertising contained convincing copy that never got read because the ads lacked a great headline or visual element to hook the passing reader.

David Ogilvy, founding partner of legendary ad agency Ogilvy & Mather, said that on the average, five times as many people read the
headlines of ads as read the body copy. Headlines that work best, according to Ogilvy, are those that promise the reader a benefit—more miles per gallon, freedom from pimples or fewer cavities.

Flip through a magazine or a newspaper and see what you notice about the ads. Typically, it is the headlines that your eyes go to first. Then notice how many of those headlines promise a benefit of some kind.

However, expressing a benefit is not enough if the way you communicate it is dull and hackneyed. Your headline should be unusual or arresting enough to get interest. Here are some examples of headlines that got noticed:

- “When doctors feel rotten, this is what they do.”
- “Why some foods explode in your stomach.”
- “How a fool stunt made me a star salesman.”

John Caples, co-author of the classic guide *Tested Advertising Methods*, recommends beginning headlines with such words or phrases as “New,” “Now,” “At last,” “Warning” or “Advice” to pique interest. He also suggests using one- or two-word headlines and giving readers a test in the headline to get them involved (such as “Do you have an iron deficiency? Take this simple test to find out”).

Whatever you do, don’t use your company name as the headline for your ad. This is one of the most common mistakes small companies make. Would you read an ad whose most eye-catching element was “Brockman Financial Services”? Probably not.

**Ads That Stand Out**

Imagine scanning a convention half full of people dressed in formal attire and suddenly noticing that one brazen attendee is wearing overalls and a red flannel
shirt. Is it safe to say your eyes would be riveted to that individual? Your first reaction might be “How dare he?” but you’d also probably be curious enough to walk over and find out what this audacious character was all about.

Such nonconformity can have the same riveting effect in advertising. Imagine scanning a newspaper page full of ho-hum little ads and then noticing that one of them stands out from the crowd. All of a sudden, the other little ads become invisible, and the unique one grabs all the attention. That ad has accomplished the single most difficult task small-business advertising faces—simply getting noticed.

Ideally, your advertising should reflect your company in both look and message. An ad represents you and what you have to offer. If it’s generic, it won’t have the power to grab attention or persuade prospects to take action.

Even a small ad, if it exhibits something a little unexpected, can steal the thunder of larger, more traditional ads that surround it. But what can you say in a small space that gets noticed and makes an impression? Here are a few ideas that could work with a variety of products or services.

■ For a restaurant. Use a large but short headline that can’t help but arouse curiosity, such as “Now, that’s enormous!” This would then be followed by an explanation that this is usually the reaction when one of Francisco’s Super-Subs (or whatever large-serving entrée) is placed in front of a customer.

■ For a beauty salon. Use a small ad with the headline “Can we have your autograph?” in quotes. Follow with copy that reads: “Be ready to draw the attention of admirers when you leave Noreen’s Cut ’n’ Curl—for people are sure to recognize you as the star you are.”
For a carpet cleaner. Try a small ad that shows a blowup of a dust mite with the headline “They’re hiding in your carpet.” The body copy then explains that these bugs are invisible to the naked eye but are accumulating by the thousands in your uncleaned carpet.

Ad Placement

There are two principal publication categories to consider for print advertising. The first, the newspaper category, has a positive and a negative side. On the plus side, you can get your ad in very quickly. That enables you to run an ad, for example, that capitalizes on some market turn of events that saves your prospects money if they act fast and buy from you. This could be very exciting news for them, and that’s perfect because they are in a “newsy” frame of mind when they read the newspaper.

On the downside, newspapers usually have a shelf life of just 24 hours. Therefore, if you run your ad on Monday, you can’t count on anyone discovering that ad on Tuesday. As the saying goes, “Nobody wants to read yesterday’s news.”

Just as with most media, your budget must allow for multiple insertions—it’s essential to run your ad with enough frequency for its message to penetrate. Regular exposure of the ad builds recognition and credibility. If some of your prospects see your ad but don’t respond to your first insertion, they may well respond to your second or third. If you have confidence in your ad’s message, don’t panic if the initial response is less than what you wanted. More insertions should bring an improved response.

The second type of publication is magazines, for which there are specialty categories of every kind. This allows you to target any of hundreds of special-interest groups. Another advantage of magazines, especially monthlies, is that they have a longer shelf life; they’re often browsed through for months after publication and also often have pass-along readership. So your ad might have an audience for up to six months after its initial insertion. Of course, an effective campaign
requires multiple insertions. After all, readers can’t be expected to see and recall every ad in each issue, and smaller space ads may require even higher frequency than larger ads to get noticed over time.

**THE GOOD WORD**

Third-party praise—whether from a customer, an industry organization or a publication—is one of the most effective tools you can use to give your ad, commercial or direct-mail package added credibility. This can take a variety of forms:

- If your business has received some kind of prize, mention in the press or other honor, don’t hesitate to put it in your advertising. “Rated #1 By Dog Groomers Monthly” or “Voted ‘Best Value’ By The Chagrin Falls Gazette” are good ways to establish your product or service’s benefit in customers’ eyes.

- Testimonials from individual customers carry weight, too. “Wanda’s Party Planners Gave My Son The Best Birthday Ever!—Jane Smith, Wichita, Kansas,” attracts customers’ attention. How to get testimonials? If a customer says something nice about your business, don’t let the compliment slide—ask, then and there, if you can use the testimonial in your sales materials. (You may want to get this in writing, just to be on the safe side.) Most customers will be happy to comply.

- Even if your company hasn’t gotten recognition, perhaps you can use a part, a process or an ingredient from one of your suppliers that has received praise. For example, you could say “Made With The Flame Retardant Rated #1 By The American Fire Safety Council.” This tells your customers you think highly enough of them to provide them with such a great product or ingredient.

- If you’re a member of the Better Business Bureau, that’s an implied endorsement, too. Be sure to post your BBB plaque prominently on your store or office wall, or use the logo on your letterhead.
Researchers have found the following about magazine ads:

- Full-page ads may attract about 70 percent more readers than fractional-page ads.
- Adding a photograph or illustration dramatically increases an ad’s power to draw readers.
- Many successful ads use photographs unrelated to the subject matter.
- It’s crucial to maintain a balance between the space devoted to photos or illustrations and copy.

There must be sufficient text to draw readers’ attention, which is crucial to advertising success.

When planning advertising in any print medium, contact the publication first and ask for a media kit. This contains rate information for various sizes of ads as well as demographic information about the publication’s readership—age, income and other details to help you decide if this is where your buyers are. The media kit also indicates specifications for the format in which you’ll have to deliver your ad to the publication.

**Radio and TV Advertising**

Many entrepreneurs believe that TV and radio advertising are beyond their means. But while advertising nationally on commercial network TV may be too costly for many entrepreneurs, advertising on local stations and especially on cable TV can be surprisingly affordable. Armed with the right information, you may find that TV and radio advertising deliver more customers than any other type of ad campaign. The key is to have a clear understanding of your target audience and what they want or listen to so the money spent on broadcast advertising is invested in programming that reaches them in the right way and in the right context.
“A lot of advertising decisions are made more from the heart than from the head,” says William K. Witcher, author of You Can Spend Less and Sell More, the classic guide to low-cost advertising. Witcher warns entrepreneurs not to get so swept up in the idea of advertising on TV or radio that they neglect to do the necessary research.

Sitting down and coming up with a well-thought-out advertising plan is crucial, Witcher says. “Don’t feel that you can simply throw a bunch of dollars into the advertising mill and create miracles.”

Planning is essential if you’re approaching broadcast advertising for the first time. Experts suggest entrepreneurs take the following steps before diving in:

- **Use the target audience description from your marketing plan as the basis for your broadcast buy.** Steer clear of any media or programming that doesn’t help you reach your audience with as little waste as possible.

- **Set a rough budget for broadcast advertising.** Come up with an amount that won’t strain your business but will allow you to give broadcast advertising a good try. Many stations suggest running ads for at least three months. A good rule of thumb for a cable TV buy is to budget a minimum of $1,500 per month, plus production. The rates for radio time will vary depending on the size of the market, the station’s penetration, and the audience of the shows on which you want to advertise.

- **Contact sales managers at TV and radio stations in your area and arrange to have a salesperson visit you.** Ask salespeople for a list of available spots that air during hours that reach your target audience.

- **Talk to other businesspeople in your area about their experiences with broadcast advertising.** While salespeople from TV and radio stations can be helpful, they are, after all, trying to sell you...
something. It is your responsibility to be a smart consumer.

Ask about the “audience delivery” of the available spots. Using published guides (Arbitron or Nielsen), ask the salesperson to help you calculate the CPM (cost per thousand) of reaching your target audience. Remember, you are buying an audience, not just time on a show, and you can calculate pretty exactly how much it’s going to cost you to reach every single member of that audience.

Inquire about the production of your commercial. Fortunately, major cable companies are now offering production

SAVE

Get your ad on the radio—for free—by bartering your products or services for air time. Called “trade-out,” this practice is common. Radio stations need everything from janitorial services and graphic designers to products they can give away as on-air prizes, so whatever you sell, you’re likely to find a ready market.
assistance to small-business owners with rates that can be as little as $500 to $1,200 per spot. And some independent TV stations will offer low-cost or free production if you enter into an agreement to advertise for at least three months. With a similar contract, some radio stations will provide a well-known personality to be the “voice” of your business at no extra cost. However, for multivoice, high production value spots, you’ll want to enlist an outside production company.

Compare the various proposals. Look at the CPMs, and negotiate the most attractive deal based on which outlet offers the most cost-effective way of reaching your audience. Buying time well
in advance can help lower the cost. For TV ads, stick with 30-second spots, which are standard in the industry. And keep in mind that the published rates offered by TV and radio stations are often negotiable. Generally, rates vary widely during the first quarter of the year, and sometimes during the third quarter or late in the fourth quarter, traditionally slow seasons for many businesses. But expect to pay full rates during the rest of the year or during popular shows or prime time.

**Getting Help**

Once you’ve gone through all these steps, you should have a good idea what is involved in broadcast advertising. But learning to be a smart
consumer in the TV and radio market isn’t always easy. If you’re worried about making the right choice on your own, consider hiring a consultant or an advertising agency to guide you.

When approaching radio stations, it’s important to learn their demographics, and look at how closely they match your target market. Sorting out demographics is one area where hiring an ad agency or consultant can really help. Every radio station in the country says they are number one in a certain time spot or with a certain audience, so it helps to have an insider on your team.

Radio can be a good option if you only need to reach a small geographic area, such as a single city or town. Another option that can help an advertiser pinpoint a small geographic area is cable TV. With networks featuring all-news, sports, music, weather and other specialized topics, cable lets you microtarget the groups that fit your customer profile. Plus, cable TV allows you to reach your target audience in specific towns, without wasting money covering viewers who are too far away to use your products or services. Major cable system providers, such as Comcast and Adelphia, allow you to buy advertising on cable programming within geographic zones that can be as small as five miles or in multiple zones to reach an entire major metropolitan area. So it’s easy to target both geographically and based on the special viewing interests of your audience.

For example, a business owner looking to reach upscale members of the community might try advertising on CNN. A sporting goods store might make a big splash by advertising locally during the national broadcast of “Monday Night Football,” carried by ESPN.

But what if you want to target prospects beyond your local broadcast area? You can still use cable TV and radio to achieve your goals. Rather than advertise on your local cable TV provider, for example, you could go directly to national cable networks—from HGTV to
ESPN 2—and negotiate for a spot schedule on programs that are targeted to your audience.

Today, there are more options than ever to reach national audiences using radio advertising. Thousands of radio stations now simulcast on the internet, and there are networks of internet-only radio stations to suit every breed of listener. If your startup is well-capitalized and you can budget at least $2,000 for a national radio campaign as part of your media mix, you can reach an affluent audience online.

The monthly audience for internet radio tops an estimated 48 million, and a study from Arbitron and Edison Media Research showed online radio listeners are twice as likely to live in households with annual household incomes of more than $100,000. There are other advantages as well: Nearly 80 percent of internet radio listeners tune in while they’re at work. So when your spot plays, your prospects are just one click away from your website. In addition to running audio advertising, it’s often possible to place online ads your prospects will see while listening.

The challenge is to book the best stations that can reach your audience in sufficient numbers to produce results. Net Radio Sales (netradio sales.com) represents the largest network of internet radio stations and is a good place to start an online radio campaign using one station or all stations in a particular format or in a specific geographic market area.

Direct Mail
Direct mail encompasses a wide variety of marketing materials, including brochures, catalogs, postcards, newsletters and sales letters. Major corporations know that direct-mail advertising is one of the most effective and profitable ways to reach out to new and existing clients.

What’s the advantage? Unlike other forms of advertising, in which you’re never sure just who is getting your message, direct mail lets you communicate one-on-one with your target audience. That allows you to control who receives your message, when it is delivered, what is in the envelope and how many people you reach.
To create an effective direct-mail campaign, start by getting your name on as many mailing lists as possible. Junk mail isn’t junk when you’re trying to learn about direct mail. Obtain free information every chance you get, especially from companies that offer products or services similar to yours. Take note of your reaction to each piece of mail, and save the ones that communicate most effectively, whether they come from large or small companies.

The most effective direct-mail inserts often use key words and colors. Make sure the colors you use promote the appropriate image. Neon colors, for example, can attract attention for party-planner or gift basket businesses. On the other hand, ivory and gray are usually the colors of choice for lawyers, financial planners and other business services.

To involve the reader in the ordering process, many mailers enclose “yes” or “no” stickers that are to be stuck onto the order form. Companies such as Publisher’s Clearing House take this technique further by asking recipients to find hidden stickers throughout the mailing and stick them on the sweepstakes entry. It also asks customers to choose their prizes, which gets them even more involved.

Next, read up on the subject. A wealth of printed information is available to help educate you about direct mail. Two of the better-known publications are *DM News*, a bimonthly trade paper, and *Direct Magazine*, a monthly.

The Direct Marketing Association (DMA) in New York City is a national trade organization for direct marketers. For a catalog that highlights many of the direct marketing industry’s books, a free brochure that lists a variety of direct marketing institutes and seminars...
across the country, or more information about joining, call the DMA at (212) 768-7277. You can also visit the group’s website at the-dma.org.

**Mailing Lists**

No matter what type of direct mail you send out, you’ll need a mailing list. The basic way to build a mailing list is by capturing name and address information for everyone who buys or shows interest in your product. If you sell by mail, you’ll already have this information. If not, you can get it off customers’ checks. Hold a drawing and ask customers to fill out an entry card or drop their business cards in a bowl. Or, if you’re a retailer, simply put a mailing list book next to your cash registers where customers can sign up to receive mailers and advance notices of sales. One of the best ways to build a mailing list is to compile a database using the leads generated by your other forms of advertising.

The list you develop using your own customers’ names is called your “house list.” Of course, when you’re starting out, your house list is likely to be skimpy. To augment it, one way to go is to rent a mailing list. There are two ways to rent a mailing list: approaching the company you want to rent from directly or using a list broker.

Any company that mails merchandise or information to its customers—catalog companies, magazine publishers, manufacturers, etc.—usually has a list manager who handles inquiries and orders for the mailing list. If, for example, you know that subscribers to *Modern Photography* magazine are likely to be good prospects for your product, then you can rent the subscriber list directly. Another good source is local newsletters or group membership lists. Many organizations will let you use their member lists; these can be very cost-effective.

If you aren’t sure whose list you want, then call a mailing list broker. List brokers know all the lists available and can advise you on what
type of list would work best for your business. Many can also custom-create lists based on your requirements. You can find brokers in the Yellow Pages under “Mailing Lists” and “Mailing Services,” and in the classified sections of mail order trade magazines. The DMA can also refer you to brokers. Another source is the monthly directory *Standard Rate and Data Service Direct Marketing List Source*, available in major reference libraries.

Some list companies let you sample a list before making a purchase. Rental costs typically range from a low of $50 per thousand (CPM) for the most basic compiled lists to $250 CPM for names with multiple selections, such as recipient’s name, job title, type of business or number of children, for example. This is for a one-time use only. (List owners typically “seed” their lists with their own names and addresses so they can tell if you use the list more than once.)

A list will typically be provided in an electronic format or on pre-printed mailing labels and sent directly to the vendor you want to do the final mailing. Consider using a mailing house. Mailing houses have the equipment to professionally cut and apply preprinted labels or to download electronic files and rapidly create and affix labels by the thousands to your envelopes. A large mailing house can also personalize and print your letter and envelope, handle the folding and insertion and do everything else associated with assembling your direct-mail package. Depending on the level of service you need, rates may range from a few hundred to several thousand dollars for a 5,000-piece mailing.

Most experts agree renting fewer than 5,000 names isn’t worthwhile, primarily because a large mailing doesn’t cost much more per piece than a small mailing, and the returns are higher. Start with about 5,000 names for your first mailing, and consider it a test.
Entrepreneurs inexperienced with direct mail are often surprised to learn that the average positive response rate is between 2 and 3 percent. In some industries or with some types of products and services, a 1 percent response rate may be considered positive. If you believe your responses are less than stellar, it may be that the market isn’t right for your product, your mailer isn’t attention-grabbing enough, or your prices are too high. If you get a response of 2 percent or higher, then you’re on the right track.

Once you develop a complete mailer, continue to test your enclosures by adding or eliminating one important element at a time and keeping track of any upward or downward changes in response.

**Brochures**

For many businesses, especially service companies, a brochure is the building block of all marketing materials. A brochure is an information piece that doubles as an image maker. The look and feel of the brochure don’t only describe the benefits of your product or service, but also convey your legitimacy and professionalism. A brochure can make your small company look just as substantial as a more established rival, making it a great equalizer.

The good news is that a brochure doesn’t have to be expensive. It can be almost as cheap to produce as a flier. A brochure can be as uncomplicated as a piece of folded paper—the same piece of letter-sized paper that would otherwise be a flier. By folding it twice, as you would a letter, then turning it upright so it opens like a book, you have the basis for a brochure.

The magic of the brochure format is that it allows for a more dramatic presentation of the material than does a flier. Think of your brochure cover as the stage curtain, creating anticipation of the excitement that lies inside. An eye-catching headline on the cover is like the master of ceremonies, piquing the prospect’s interest about what’s behind the “curtain.” Inside, you first need to pay off the promise, or claim, in the cover headline with another headline, then use the remaining space for elaboration.
The principles of writing successful brochures are basically the same as those for writing print ads (see the “Print Advertising” section starting on page 502). However, brochures offer more room than ads, so there is a tendency to get long-winded and wordy. Keep your brochure brief, with enough information to interest readers but not so much repetition that they get bored. Use benefit-laden headlines and subheads, and “explain” your benefits by detailing all your features in the body copy.

The sample on page 522 shows a “before and after” makeover of a brochure for a company called My Right Hand that provides business support services. The first step in boosting this brochure’s appeal was coming up with a tempting headline for the cover. The goal is to arouse the interest of potential clients—the harried sole proprietor who needs help with the detailed paperwork involved in running a business alone. The revised headline “How To Free Your Business From Paperwork Purgatory” accomplishes that goal.

In this or any other headline, it’s important to go beyond the ordinary. Give your headline an unexpected word or phrase that expresses the idea in a memorable fashion. Adding the word “purgatory” gives this headline extra drama and emotion and puts the worst face on paperwork.

When the prospect flips the page, he or she finds a short-story-length headline that builds on the cover: “PAPERWORK. It ties you up. It slows you down. It ticks you off. All good reasons to delegate it to us . . . a service you’ll feel confident calling MY RIGHT HAND.”

This headline pushes the prospect’s buttons (i.e., sensitivities) by emphasizing that paperwork is a grind, a bore and a frustration. The buzzword “delegate” is used because delegation is recognized as essential
to entrepreneurial success when a business has grown too big for one person to handle. And since confidence and trust are essential when giving your business papers to an unknown company, the headline also emphasizes the company’s trustworthiness by using the word “confident.”

The overall look of a brochure is the key to making a good impression on prospective customers. Here are some tips to make sure yours is inviting to the eye:

- Have the descriptive copy typeset in a fairly large size. There’s no bigger turnoff for a prospect than squinting at tiny printing.
- Use light-colored paper. This, too, makes the brochure easier to read.
- Break up the copy with subheads. This makes the overall brochure less intimidating to read.
- Add something unexpected visually. One idea is to use a striking photo or graphic on the cover.
- Use the back of your brochure for a “business biography.” This is a good place to talk about how your company got started, how it has succeeded and where it is today.
- Always use endorsements, testimonials, industry affiliations or other credibility-raising elements.
- Spend a little extra money. It’s worth it to have your brochure printed on cover stock or quality heavyweight paper. A key part of the impression it makes is the way it feels in the customer’s hand.

Sales Letters

Whether you send it out solo or as part of a direct-mail package (see “Package Deal” on page 538), a sales letter can be one of your most effective marketing tools, allowing you to speak one-on-one to
prospects and customers. What makes a good sales letter? There are three key rules:

Sample Brochure

BEFORE: The flier format, while imparting the basic message, is a bit “downscale” for a somewhat sophisticated service.

We know what this headline is trying to say, but, technically, paperwork is part of “your business.”

Good use of quick reading benefits.

Spend Time on Your Business, Not on Your Paperwork

My Right Hand offers full administrative support for your business—from mass mailings (start to finish) to billings and word processing services. We’re more than a typing service—My Right Hand is your personal administrative assistant.

Saves Money:
No need to provide equipment or space.
Pay for only the time you need.

Saves Time:
Your paperwork gets done, while you’re free to concentrate on your business.

Gets Results:
Your paperwork is accurate, prompt and professional.

Improves Cash Flow:
We mail your bills promptly so your clients pay you faster.

Reduces Stress:
Vacation and overload work is completed.

We’ll Make You Look Like The Professional You Are!
Call now for a FREE price list. We’ll show you what we can do for you!

MY RIGHT HAND
P.O. Box 57
Medford, MA 02153
(617) 391-1306

YOUR ALTERNATIVE TO PERMANENT HELP

A flier is a format that can leave the impression you are small-time and impermanent.

Is the reader being slightly insulted or patronized by this line?

Is the reader being slightly insulted or patronized by this line?
1. **Start with a hook.** Begin your letter with a provocative thought or idea that hooks readers and makes them want to keep reading.

2. **Give them the facts fast.** Quickly list the top two or three benefits of doing business with your company.

3. **End persuasively.** Close the letter with a strong argument that compels readers to respond.

How long should a sales letter be? The standard answer is “long enough to do the job.” And yes, it takes longer to persuade a prospective customer to buy than to merely get him to inquire further. But in
today’s high-tech age, people become impatient with anything that takes much longer than an eyeblink to read.

Does this mean the sales letter is dying out? No; people will still read sales letters. However, they don’t like it when you make them work at it—so keep it lean and mean.

Equal in importance to your message (some would say more important) is the look of your letter. It should be visually inviting. As soon as prospective customers pull your letter out of the envelope, before they read one word of your sales message, they

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**TIP**

Trial sizes and sampling work. Have employees pass out product samples in front of your store; if you provide a service, offer a free trial period or consultation.

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**ADDED DIMENSION**

Add dimension to your sales letters—literally—by attaching some type of small item to the letter. Make it something that ties in to the letter’s headline or subject. For example:

- A plumber could stick a minipacket of aspirin to a letter with a headline reading “Pipes giving you a headache? Take two of these, and call us in the morning.”
- Child’s plastic play scissors attached to the letter could be combined with a “Cut your costs . . .” message.
- Or try a packet of coffee with a headline like “Sit down, have a cup of coffee on us, and learn how you can profit from stocking Steve’s Safety Bolts.”

A 3-D item inside gives your direct-mail package bulk. Recipients are curious and more likely to open the letter. Once they see what’s inside, they’ll read on to find out the connection between the item and the words.
instantly have a positive or negative reaction based on the overall look of the letter. If it’s crammed with words, readers will get a negative impression right away.

To have the best chance of being read, your letter should be open and airy-looking with short paragraphs—including some that are one sentence or even one word long. (A one-word paragraph? Here’s how: Write something like “I have one word for suppliers who say they can’t offer you a one-year guarantee.” Follow that with a one-word paragraph such as “Baloney!” or any similar word you want to use. It is a real attention-getter.)

Strip your sales message down to the essentials so readers can breeze through it. This may mean hacking out words and phrases you have slaved over. But each extra bit you take out increases your chances of actually getting a response.

Last but not least, be sure to use “you.” This is a good rule of thumb in any form of advertising, but especially in a sales letter, where you are, in a sense, talking to the prospect face-to-face. Always talk about your product or service in terms of its benefit to the reader, such as “You’ll save more than 50 percent.” Sounds obvious, but it’s easy to lapse into the impersonal “we” mode, as in “We offer our customers discounts of more than 50 percent.”

**Postcards**

The humble postcard has the power to beat all other direct-marketing formats when it comes to generating sales leads. Why is the postcard so effective? It’s much less costly to prepare and mail than other direct-mail efforts, but that’s not its greatest strength. It can be mailed out practically overnight, but that’s not its greatest strength, either.

It’s easy to get caught up in marketing campaigns that bring sales from new customers yet overlook the importance of retaining existing customers. It’s less expensive to upsell an old customer than to win a new one, so you need to strike a balance between acquisition and retention tactics, such as loyalty programs.
A Little Surgery Can . . .

This company’s old letter is a good first start. It’s persuasive and has immediacy. All it needs is some additional structure and a little nipping and tucking to make it work even harder.

BEFORE:

A letter with potential . . .
... Make a Letter Better

AFTER:

Will you OVERPAY
Your Property Tax Again This Year?

It’s not too late to lower it if you act by the December 26th deadline.

Mr. George Wagner
R-B Electronics
1313 Azure Blvd.
Plainview, MA 01746

Dear Mr. Wagner,

Will you be “nailed” again this year?

Amazingly, six out of every 10 property owners overpay on their property taxes . . . and you could be one of them.

If you act by December 26th—the deadline for contesting your assessed valuation—you can get an abatement that will lower your taxes.

Why you should call Property Tax Associates:

1) get a larger abatement. You can expect a much larger cut than you could obtain on your own because of our special understanding and knowledge of the abatement process.

2) pay only if you get a reduction. You don’t pay us unless we successfully reduce your tax. And our fee is based on a percentage, so it is in our interest to get your taxes reduced as low as possible.

3) get a free evaluation. It costs you nothing to learn if you have a chance for an abatement. We know the Plainview real estate market and can quickly evaluate your assessment and tax situation, without obligation.

We’ve helped many owners like you save thousands on their property taxes. And we can do the same for you.

MAKE NO MISTAKE: The city will not reduce your tax automatically. You must apply by December 26th for a reduction—or overpay again. Call me at (508) 429-2527 today so there is enough time to evaluate and prepare your request.

Sincerely,

Rocco Beatrice
Rocco Beatrice
Certified Public Accountant

RECOMMENDATIONS:

A. Headline transplant: The new headline pushes an emotional “hot button” that gets prospects riled up—and ready to act.

B. Personalization implant: A letter with opening personalization enables you to bond one-to-one with the reader. That connection is the same that a sales rep hopes to achieve. And a letter is a sales rep.

C. Pace lift: The new letter opens with a provocative, one-sentence “hook,” then quickly hops from point to point.

D. Paragraph liposuction: The new letter keeps paragraphs lean, mean and easy to read.
The real power of a postcard is that it takes only a flip of the wrist for recipients to get your message. They read their name on it, then flip it over to see what’s on the other side. Simple, but incredibly powerful. Why? Because a huge percentage of direct mail never even gets opened. That’s the key word—“opened.” A postcard never has to overcome that obstacle. Even a folded flier has to be unfolded, while all a postcard requires is a flip of the wrist.

More than letters, postcards convey a sense of urgency, making them an ideal way to notify customers of a limited-time offer or special sale. Don’t restrict yourself to the standard 4-by-6-inch postcard format, either. Postcards can be as big as a letter-sized piece of paper, and many really benefit from that extra size. This costs more (although still not as much as a full direct-mail package), but it gives you more room to dramatize your offer. If you do use a larger size, you can make it a picture postcard, with just a large visual on the front and words on the back next to the recipient’s name and address.

Consider the “before and after” makeover (on page 530) on a postcard for SWD Truck Repair. Like many service businesses, SWD’s services aren’t an impulse purchase—meaning buyers usually don’t leap for the phone right after getting the promotional mailer.

What’s a great way to get more attention in the nanosecond of time it takes the recipient to turn the postcard over? First, the company needs a catchier nickname to use for the purposes of advertising. In this case, “The Truck Doctor” fits the bill perfectly. Nicknames can work for many types of service businesses. Some examples:

- For a wedding planner: The Marriage Maestro
- For an auto mechanic: The Car Medic
- For a party planning service: The Party Smarty
- For a carpenter: The Wood Wizard
You get the idea. Next, add an eye-catching graphic on the front of the postcard, along with a provocative headline or teaser that conveys the company’s benefit. In this example, the illustration shows a struggling truck, and the headline urges “Call For A Free Checkup At The Truck Doctor.” It’s a nice play on words that offers a benefit few can resist—a free service. Cartoons with copy balloons, as shown in the makeover, are an excellent way to cut through the advertising clutter and grab the reader’s attention.

**Fliers**

A hybrid of the postcard and brochure, fliers give you more room to get your message across than a postcard but are cheaper (and easier to design) than a brochure.

Fliers are ideal for certain situations, such as for posting on a bulletin board or handing out at an event. They are also a good tool to enclose with a sales letter if, for example, you want to notify recipients about a short-term sale or upcoming special event.

Because fliers’ primary benefit is that they convey information quickly, make sure yours is easy to read and stands out (see the sample on page 531). Try bright colors to grab the viewer’s eye, and use large type so information can be seen from a distance. Keep type brief and to the point. A crowded flier won’t get anyone’s attention.

While fliers are a useful addition to a marketing campaign, don’t use them as your only direct-mail tool, or you could come off looking amateurish.

**Catalogs**

For mail order entrepreneurs, a catalog is the backbone of their businesses. But even if selling by mail is only a small part of your business, you’ll be surprised to find out how much you can benefit from a catalog.

If you’re picturing the hefty Spiegel catalog or a glossy magazine like those sent by Pottery Barn, don’t despair. A catalog can be significantly briefer and still be successful. Here are five tips to ensure yours is, too:
Sample Postcard

**BEFORE:** This postcard has the basics—for a business card. But it’s supposed to grab attention as an advertisement, and it doesn’t.

![Sample Postcard](image)

What makes this company special? What makes it worth remembering? There’s nothing from this card.

**AFTER:** This approach catches your eye with the cartoon, the contrasting panels and the proposition.

![Sample Postcard](image)

This headline makes an attractive offer from a memorably named mechanic.

The relevant cartoon makes your message interesting and more palatable.
Sample Flier

WHY STAND IN LINE AT THE POST OFFICE?

When we can box and ship anything, anywhere, and we won’t make you wait.

Pacific Packaging & Shipping
555 Piedmont Dr., Bakersfield, CA 91054, (805) 555-1215
1. **Keep it simple.** Don’t try to reinvent the wheel. Catalogs look the way they do for a reason. Almost every format you can imagine has been tested numerous times, and those you see most often are the most effective. Choose one of the most common catalog sizes.

2. **Borrow from the best.** The surest way to plot your catalog layout is to study other catalogs—at least 20 or 30. You’ll then have a collection of the best ideas from the best designers and copywriters money can buy. Study the catalogs, and note any useful ideas.

3. **Choose a production route.** With the abundance of high-quality desktop publishing programs, chances are you can easily create your own camera-ready catalog design. Microsoft Publisher, for example, includes a design “wizard” that shows you how to easily lay out your catalog pages. The real challenge is to create hard-working copy that’s professional, clean and motivates customers to purchase the featured products. If you’re up to the task, you can save considerable production costs by completing this step on your own. If not, you should look for a professional design team that’s experienced in catalog production. Or, you may want to hire a copywriter to review your initial efforts and improve them before having a catalog printed. After all, with the cost of printing, postage and rental lists, sending a poorly produced piece is a costly mistake.

4. **Find the perfect printer.** Shop around—you’ll be amazed at the range of prices printers will quote you for the same job. If you live in a small town, call large printers in nearby metropolitan areas since they often offer substantial savings and give quotes over the phone. And don’t overlook the internet when it comes to shopping for the

**WARNING**

Don’t launch a direct-mail campaign (especially a catalog) until you’re sure you can handle the orders you might receive. If fulfillment systems aren’t in place and orders don’t get sent out, you’ll lose credibility—and future business.
best printer. Some of the country’s largest printers have made it easy to order online, and this is where you may find the most attractive pricing. You can e-mail them your artwork or send it on a CD. It’s a good idea to get at least three bids on any print job you plan to run, and get six or more on a big one.

The printers will want to know the physical dimensions of your catalog, whether it will be in four-color, the number of pages to be printed, the kind of paper you want, and the number of catalogs you plan to order. The more catalogs you print, the cheaper your cost per unit. In addition to the catalogs you mail out, you need to include a fresh catalog with each order.

Do you offer customers gift certificates? Many entrepreneurs don’t, not realizing how this can boost sales. Here are some suggestions to make the most of this sales tool and also prevent fraud:

- Don’t buy generic gift certificates from stationery or office supply stores. These can easily be duplicated. Invest in custom-designed certificates.
- Avoid cash refunds. State on the certificate that if more than $5 in change is due, it will be issued in the form of another gift certificate.
- Keep a log. Record the number, date of sale and dollar amount of each gift certificate sold. Be sure to note when the certificate is redeemed.
- Use security features like an embossed logo or watermark to prevent photocopying.

Properly used, certificates are like money in the bank for your business since customers often don’t redeem them until months after they’re purchased.
shipped, give away catalogs to customers or at events, and have extras to send when someone expresses interest—so print a generous quantity.

5. **Put it all together.** You can spend tens of thousands of dollars on a mail order catalog—but if you do as much as you can yourself, you won’t have to. Today’s technology—from digital cameras to simple desktop publishing programs—makes catalog production and layout simpler than ever.

Of course, the real key to catalog success doesn’t lie exclusively in technology—it’s understanding your customers. Show them why they should buy from you and no one else. Target them with the right mailing lists. And remember, the more you do yourself, the more you save.

Need more help? The Direct Marketing Association can refer you to catalog consultants in your area.

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**DIRECT HITS**

Try these attention-getting direct-mail ideas to power up your business:

- **Reactivation voucher.** Mail a $20 no-strings-attached voucher to any customer you haven’t seen in six months or longer. Few can turn it down . . . and even fewer will spend only $20.

- **Magalog.** If you have a catalog, give it more value by enhancing it with problem-solving editorial content. This creates a combination magazine and catalog.

- **We’ve missed you.** Send a card to clients you haven’t seen in a year telling them they’re missed. Include a discount coupon.

- **Birthday call.** Record all customers’ birth dates, and make sure that they get a special call or card from you.
Newsletters

Publishing a company newsletter is a great way to get the word out about your business . . . and keep past customers coming back. While many small-business owners have changed from printed newsletters to e-newsletters, which are sent via e-mail, there are still some target audiences, such as seniors, that respond best to old-fashioned snail mail. If your newsletter becomes well-known for valuable content, your readers will spend time with it rather than pitch it into the trash as junk mail.

“The primary benefit of a customer newsletter is keeping your existing customers informed about what you’re doing,” says Elaine Floyd, author of *Marketing with Newsletters*. Newsletters are also a good way to reach new customers because, if done correctly, they come off as more informative and with less sales hype than most items consumers receive in the mail. In addition to telling readers about your product or service, newsletters inform them about developments in your industry or theirs and share information that affects them. “People might not think they need your product or service,” says Floyd. “Reading an informative newsletter helps convince them they do.”

The businesses that benefit most from newsletters are those that have to educate customers about the advantages of using their product or service. If you own a candy shop, for example, you might not have enough pertinent information for customers to justify a newsletter. On the other hand, a computer consultant could do a real service by publishing a newsletter about the latest software and hardware.

Your newsletter doesn’t have to be all information. Including a coupon, a special offer or other call to action helps get people to buy.

**TIP**

Although newsletters give you room for lengthier articles, keep the bulk of your newsletter limited to short pieces, so they are very scannable. You want lots of different items in the hope of providing something interesting to every reader.
Also, always give upcoming sales or promotions a prominent place in your newsletter. “The promotional aspects of your newsletter should be woven in with the informational,” advises Floyd. If you’re reporting on your industry, talk about your company’s place within the industry. If you’re talking about a trend in the economy—the rising gas prices, let’s say—then tie in the fact that using your company’s service helps customers save money.

Floyd recommends using the following formula, which she calls RISE, to be sure your newsletter covers all the bases:

PREMIUM PROSPECTS

Whether you call them premiums or advertising specialties, gifts are a marketing tool that works with all demographic groups. Studies show that 40 percent of people remember an advertiser’s name up to six months after receiving a promotional product as a gift.

Premiums carrying your company name, logo or message can be used to generate leads, build name awareness, thank customers, increase store traffic, introduce new products, motivate customers and create an unconscious obligation to buy. Premiums can be used at trade shows, open houses, special events and grand openings and in direct mail.

Classic premiums include T-shirts, baseball caps, jackets, headbands, writing instruments, desk and office accessories, scratch pads and mugs. Mouse pads and high-tech devices, such as USB memory drives, are some of the more recent premiums gaining popularity.

How to make a premium work for you? Research it first. Make sure the item is matched with your target audience. Also make sure the item is good quality. A cheap premium that breaks or doesn’t work in the first place makes a negative impression—just the opposite of what you want.
When choosing a premium, ask five questions:

1. How many people do I want to reach?
2. How much money do I have to spend?
3. What message do I want to print?
4. What gift will be most useful to my prospects?
5. Is this gift unique and desirable? Would I want it?

You can find specialty advertising firms listed in the Yellow Pages. Ask to see their catalogs; compare sample quality and prices.

While the gift is being offered, focus your marketing and advertising efforts on it. There’s no more powerful word in advertising than “free,” so put the power of freebies to work for you.

- **Recognition.** Your newsletter should tell people who you are, what you do and where they can find you. If consumers have to read through two pages of text to find the name of your company, you’re not increasing your name recognition. Use your company logo on the newsletter.

- **Image.** Your newsletter is an important branding tool that can enhance your company’s image. If it’s interesting and professional-looking, customers will think well of your business. If it’s not, they may doubt your credibility. Floyd says most people can create their own professional-looking newsletter with desktop publishing programs or have it done affordably by a freelancer.

- **Specifics.** Give your readers specific reasons why they should choose your product or service. Vague assertions like “We’re the best” don’t work nearly as well as matter-of-fact details about exactly what you can do for them.
■ **Enactment.** Make the reader take action—whether by picking up the phone, mailing in a reply card or coming down to your store.

Strapped for things to write about—or don’t have time to write it yourself? Try asking your industry trade association for news services that provide copy in return for a monthly subscription fee. This also ensures the articles are professionally written.

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**PACKAGE DEAL**

While direct mail can mean everything from a postcard to a catalog, many business owners get the best response from sending out a direct-mail “package.” In addition to the sales letter and brochure (see the “Sales Letters” and “Brochures” sections earlier in this chapter), this typically includes three other elements:

1. **The outside envelope.** There are two schools of thought on this. One school swears that “teaser” copy on the envelope can get recipients to open it. On the other hand, some people throw away anything that looks like junk mail. The opposite strategy is to trick readers into opening your mail by sending direct mail that looks like personal letters. Software programs can print addresses so they look like handwriting. Put only your address, not your company name, on the return address to arouse the recipient’s curiosity.

2. **A response form.** The form should be easy to fill out. Be sure to include your phone number in case the prospect wants to ask a question or order by phone.

3. **A reply envelope.** Enclosing postage-paid reply envelopes helps get orders. Even if you can’t afford postage-paid envelopes, include a pre-addressed reply envelope. If the prospect has to put the mailing down and search for an envelope, they may have second thoughts.
If you can’t find a news service, use a clippings service to get story ideas. Though clippings from other publications can’t be reprinted without the writer’s permission, they can give you ideas for articles of your own and keep you updated on hot industry topics.

Tap clients for copy by featuring a “Client of the Month,” showing how your product or service solved a problem they were facing. Or you can team with related businesses; for example, an interior designer could have guest columns written by florists or furniture store owners.

Easy ways to get clients to contribute? Conduct a survey—and print the results. Start a “Letters to the Editor” column. Add a “Q&A” column, where customers can pose their problems and other customers can write in with solutions.

Keep your writing style simple, and make sure you get help proofreading if your skills aren’t up to snuff. A newsletter full of typos or grammatical errors shows clients you’re a careless amateur.

Newsletters can be monthly, semi-monthly or quarterly, depending on what your budget is, how much time you have and how fast-paced your industry is. Quarterly publications are generally sufficient to get your name in front of customers; then increase frequency if needed. The key is to be consistent, so don’t take on more than you can handle.

Renting a mailing list isn’t generally a good idea for newsletters, says Floyd. “Your newsletter will be better received if the reader knows about you or needs your product,” she says. Floyd recommends sending newsletters only to current customers, qualified leads and referrals. When someone gives you a business card, send him or her a newsletter. Then you or a salesperson can call the person later, using the newsletter as a starting point to ask about products or services they might need.
Classified Ads

Classified ads are a smart way to reach prospects who are looking for—and are prepared to buy—what you sell. And since they demand neither the eye-catching design of a display ad nor the clever wording of a direct-mail campaign, almost anyone can write them.

What should your ad say? The Newspaper Association of America (NAA) recommends listing your product or service’s main benefit. Does it make people money? Improve their self-image? Use a catchy statement, such as “Feel Good Now!” to create an impact. Not every reader is looking for the same benefit, so list as many as you can afford. The more readers know about your business, the more they’ll trust you.

Experts also recommend using white space to make your classified ad stand out from the competition. White space works especially well in newspapers, which sell ads for pennies a word or by the line. If you place just a few words in each line—the first line listing a benefit, the second the name of your company, the third your address, for example—you have a striking, centered ad surrounded by white space.

These brief ads work best when they offer a commonly sold product or service such as tax preparation or catering. Listing the benefits of each isn’t essential because the public knows what to expect. White space in classifieds is also effective when you offer a catalog or another form of literature describing your product. In this case, you might place the main benefit in an opening line that’s designed to grab the reader’s attention, and below the benefit list how to send for the information, noting its price, if any. For example, “Play Backgammon Like a Pro” would be a good benefit line in an ad offering free information about a booklet that shows backgammon players how to improve their game.
Ads that use white space are less common in magazines since these ads are often twice as costly as a typical newspaper classified. However, they are often more effective as well—even more so than in a newspaper because few other white space ads will be competing for the attention of the readers.

Before placing your classified ad, contact the publication and ask for a media kit. They should include guidelines that will help you construct your ad and give you tips on choosing the main benefit, consolidating words, or determining whether the tone should be boldly stated or instead employ a conservative description and a list of benefits. Most media kits also list demographic information about the readers—essential information to determining if the publication is right for you.

Finally, repeat your ad as often as possible, so long as it brings in enough money to justify its expense. Repeating ads helps customers gain familiarity with your product or service and helps break down sales resistance. Once the ad stops pulling in new accounts, it’s time to develop a new ad. A classified that uses fewer words will cost less to run, so it doesn’t have to pull as well to justify itself. But sometimes adding more words can help your sales, too. It doesn’t hurt to experiment.

How much profit do you need to make on classifieds? Unless you’re running a one-product, one-sale business, you can build a profitable operation through classifieds just by breaking even, or even by coming in a little under the money since many of those buyers will become your repeat customers.

**Co-Op Advertising**

How can small retailers or distributors maintain a high profile without spending lots of money? One answer is co-op advertising. Co-op advertising is a cooperative advertising effort between suppliers and retailers—such as between a soda company and a convenience store that advertises the company’s products.
Both retailers and suppliers benefit: retailers because co-op advertising increases the amount of money they can spend on ads, and suppliers through increased local exposure and better sales.

Although each manufacturer or supplier that uses co-op advertising sets up its own individual program, all co-op programs run on the same basic premise. The retailer or distributor builds a fund (called accrual) based on the amount of purchases made by the supplier. Then, when the retailer or distributor places ads featuring that supplier’s products, the supplier reimburses all or part of the cost of the ad, up to the amount accrued.

To start using co-op advertising, begin by asking your suppliers what co-op programs they offer. Follow their rules to be sure you get

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COUPON CUTTERS

If you want to attract and keep customers, you need to offer an incentive. A coupon for a free sample or service or a discount on your normal prices can be just the nudge a customer needs to try your new business. Coupons help you achieve many goals: introducing a new product or service, increasing repeat business, beating the competition and more.

One of the most powerful ways to use coupons is through direct mail. This method is especially good for occasions such as grand openings or new product/service introductions. How to make the most of your direct-mail coupon campaign? Keep these tips in mind:

- Coupons can be offered as a “Thank you for buying from us” or a “Stop by and try us” message.
- A coupon can be a single item for a one-shot promotion or used in combination with other offers.
- The value must be substantial enough to make it worthwhile. Better to err on the side of giving too big a discount than to seem cheap.

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To start using co-op advertising, begin by asking your suppliers what co-op programs they offer. Follow their rules to be sure you get
reimbursed. Some suppliers require that ads feature only their products, not any other supplier’s. Others ask that no competing products be included.

Though procedures may vary, there are three basic steps to filing a claim for reimbursement. First, show “proof of performance.” For print ads, this is just a copy of the ad exactly as it was printed. If you buy TV or radio ads, you’ll need a copy of the script with station affidavits of the dates and times aired.

Next, document the cost of the advertising—usually with copies of applicable invoices from the publication or station where you ran the ad. Third, fill out and submit a claim form, which you can get from the supplier.

Other steps to make the most of co-op advertising:

■ Keep careful records of how much you have purchased from each supplier.

— Use coupon promotions sparingly. They wear themselves out if overused.

■ Be clear. State exactly what the offer is, how long it lasts and the terms of redemption.

■ Color-code your coupons if a variety of groups will receive them. For example, if you’re mailing to six ZIP codes, color-code them differently so you know how many were redeemed from each area.

The newest way to distribute coupons: on the internet. Add a registration box to the main page of your website so people can sign up to receive coupons. This way, you can build a permission-based e-mail list of people who want to receive ongoing offers and rewards. Or consider using a web coupon service, which offers coupons in booklets by mail or online for consumers to download and print out themselves.
If you try something unusual, such as a sales video or a catalog, get prior approval from each vendor before proceeding.

If you’re preparing your own ads, work with an advertising professional to prepare an ad you think will appeal to the manufacturer. Keep in mind the image the manufacturer presents in its own ads.

Make sure your company’s name stands out in the ad. Your goal is not so much to sell the supplier’s product but to get customers into your store.

If there’s no established co-op program, pitch your ad campaign to the vendor anyway.

Expect vendors to help out; after all, you’re bringing them business. If your vendor doesn’t offer advertising co-op money, you should look for another vendor that does.

Be sure to follow up. Money goes only to those who submit claims.

Measuring Advertising Effectiveness

Just as important as creating a strong marketing plan is following through on the results. How will you know which ads are working if you don’t analyze the results? Check the effectiveness of your advertising programs regularly by conducting one or more of the following tests:

- Run the same ad in two different publications with a different identifying mark on each one. Ask customers to clip the ad and bring it...
in for a discount or a free sample. Or, if you are running an ad that asks customers to order by mail, put a code in your company address such as “Dept. SI.” By looking at the marks on the clipped ads or the addresses on the mail-in orders, you’ll be able to tell which ad pulled better.

- **Train everyone in your company who answers the phone to ask customers where they heard about you.** Create a one-page form with checkboxes so this process is simple to follow and the results are easy to evaluate. Just bear in mind that customers will sometimes get it wrong—they may say they saw you on TV when you don’t run a TV campaign. But overall, asking for this information will be valuable.

- **Offer a product at different prices in different magazines.** This has the added benefit of showing whether consumers will buy your product at a higher price.

- **Advertise an item in one ad only.** Don’t have any signs or otherwise promote the item in your store or business. Then count the calls, sales or special requests for that item. If you get calls, you’ll know the ad is working.

- **Stop running an ad that you regularly run.** See if dropping the ad affects sales.

- **Always check sales results.** This is especially important when you place an ad for the first time.

Checks like these will give you some idea of how your advertising and marketing program is working. Be aware, however, that you can’t expect immediate results from an ad. Advertising consistently is important, especially if you run small-space ads, which are less likely to be seen and remembered than larger ads.

One study showed that attention to an ad is significantly impacted by its size—in fact, a 1 percent increase in ad size leads to the same

“**No person can get very far in life working 40 hours a week.**”

—J. WILLARD MARRIOTT, FOUNDER OF MARRIOTT INTERNATIONAL INC.
Advertising Checklist

Overview

☐ Have you defined your advertising objectives and written them down?
☐ Have you developed an advertising strategy?
☐ What exactly do you want to communicate to your potential customers?
☐ Are you communicating buyer benefits?
☐ Is the timing right?
☐ Do you have a planned advertising budget?
☐ Are you prepared for a successful response?
☐ Have you asked suppliers about cooperative programs?
☐ Have you made sure that employees (if any) are informed of your goals?
☐ Have all appropriate employees been familiarized with your advertising and trained how to respond to customers?
☐ What is your lead time for ad placement? Some newspapers require only a few days; some magazines require two months or longer.
☐ How will you measure the effectiveness of your ad?

Specifics

☐ Does your ad present a central idea or theme?
☐ Does your message require a response?
☐ Have you told customers where and how to reach you?
☐ Is your ad clear and concise?
☐ Is your ad consistent with your desired business image?

Files

☐ Are you keeping files on all aspects of each ad?
percentage increase in attention. You must also run your ad in multiple issues (at least three) before readers will notice your ad and buy what you’re selling.

Evaluate an ad’s cost-effectiveness, too. Consider the CPM. A cheaper ad is no bargain if it doesn’t reach many of your prospects.

Advertising Checklist, continued

☐ Where did the ad run? What were the results? (Number of sales? Sales increases?)

☐ Have you reflected/brainstormed/evaluated?

☐ What variables (the economy, competition, etc.) have you targeted for further study?

Competitors and Customers

☐ Are you watching competitors? (If advertisers repeat ads, try to determine why.)

☐ Are you listening to your customers? What do they want? What’s important to them?

☐ Which media are most cost-effective for reaching your customers?
TALKING POINTS

How To Promote Your Business

Paid advertising isn’t the only way to spread the word about your business. In fact, one of the best ways to get your business noticed does not have to cost you a dime. We are talking about public relations.

Public relations is a broad category, spanning everything from press releases and networking at chamber of commerce meetings to sponsoring contests or holding gala special events. This chapter will show you the basics of public relations and give you plenty of ideas to get started. And ideas

Find out the time frame in which the media you are interested in work.
Magazines, for instance, typically work several months in advance, so if you want to get a story about your business in the December issue, you may need to send your idea in June.
are what it's all about, because when it comes to public relations, you are limited only by your own imagination.

**Getting Publicity**

Just what is public relations? And how does it differ from advertising? Public relations is the opposite of advertising. In advertising, you pay to have your message placed in a newspaper, TV or radio spot. In public relations, the article that features your company is not paid for. The reporter, whether broadcast or print, writes about or films your company as a result of information he or she received and researched.

Publicity is more effective than advertising, for several reasons. First, publicity is far more cost-effective than advertising. Even if it is not free, your only expenses are generally phone calls and mailings to the media.

Second, publicity has greater longevity than advertising. An article about your business will be remembered far longer than an ad.

Publicity also reaches a far wider audience than advertising generally does. Sometimes, your story might even be picked up by the national media, spreading the word about your business all over the country.

Finally, and most important, publicity has greater credibility with the public than does advertising. Readers feel that if an objective third party—a magazine, newspaper or radio reporter—is featuring your company, you must be doing something worthwhile.

Why do some companies succeed in generating publicity while others don’t? It's been proved time and time again that no matter how large or small your business is, the key to securing publicity is identifying your target market and developing a well-thought-out public relations campaign. To get your company noticed, follow these seven steps. You’ll notice that many are similar or identical to steps you went through when developing your marketing plan.

1. *Write your positioning statement.* This sums up in a few sentences what makes your business different from the competition.
2. **List your objectives.** What do you hope to achieve for your company through the publicity plan you put into action? List your top five goals in order of priority. Be specific, and always set deadlines. Using a clothing boutique as an example, some goals may be to:
   - increase your store traffic, which will translate into increased sales
   - create a high profile for your store within the community

3. **Identify your target customers.** Are they male or female? What age range? What are their lifestyles, incomes and buying habits? Where do they live?

4. **Identify your target media.** List the newspapers and TV and radio programs in your area that would be appropriate outlets. Make a complete list of the media you want to target, then call them and ask whom you should contact regarding your area of business. Identify the specific reporter or producer who covers your area so you can contact them directly. Your local library will have media reference books that list contact names and numbers. Make your own media directory, listing names, addresses, and telephone and fax numbers. Separate TV, radio and print sources. Know the “beats” covered by different reporters so you can be sure you are pitching your ideas to the appropriate person.

5. **Develop story angles.** Keeping in mind the media you’re approaching, make a list of story ideas you can pitch to them. Develop story angles you would want to read about or see on TV. Plan a 45-minute brainstorming session with your spouse, a business associate or your employees to come up with fresh ideas.

   If you own a toy store, for example, one angle could be to donate toys to the local hospital’s pediatric wing. If you own a
clothing store, you could alert the local media to a fashion trend in your area. What’s flying out of your store so fast you can’t keep it in stock? If it’s shirts featuring the American flag, you could talk to the media about the return of patriotism. Then arrange for a reporter to speak with some of your customers about why they purchased that particular shirt. Suggest the newspaper send a photographer to take pictures of your customers wearing the shirts.

6. Make the pitch. Put your thoughts on paper, and send them to the reporter in a “pitch letter.” Start with a question or an interesting fact that relates your business to the target medium’s audience. For instance, if you were writing for a magazine aimed at older people, you could start off “Did you know that more than half of all women over 50 have not begun saving for retirement?” Then lead into your pitch: “As a Certified Financial Planner, I can offer your readers ten tips to start them on the road to a financially comfortable retirement . . .” Make your letter no longer than one page; include your telephone number so the reporter can contact you.

If appropriate, include a press release with your letter (see “Meet The Press” on page 553). Be sure to include your positioning statement in any correspondence or press releases you send.

7. Follow up. Following up is the key to securing coverage. Wait four to six days after you’ve sent the information, then follow up your pitch letter with a telephone call. If you leave a message on voice mail and the reporter does not call you back, call again.
Think of a press release as your ticket to publicity—one that can get your company coverage in all kinds of publications or on TV and radio stations. Editors and reporters get hundreds of press releases a day. How to make yours stand out?

First, be sure you have a good reason for sending a press release. A grand opening, a new product, a record-setting sales year, a new location or a special event are all good reasons.

Second, make sure your press release is appropriately targeted for the publication or broadcast you’re sending it to. The editor of Road & Track is not going to be interested in the new baby pacifier you’ve invented. It sounds obvious, but many entrepreneurs make the mistake of sending press releases at random without considering a publication’s audience.

To ensure readability, your press release should follow the standard format: typed, double-spaced, on white letterhead with a contact person’s name, title, company, address and phone number in the upper right-hand corner. Below this information, put a brief, eye-catching headline in bold type. A dateline—for example, “Los Angeles, California, April 10, 2010—” follows, leading into the first sentence of the release.

Limit your press release to one or two pages at most. It should be just long enough to cover the six basic elements: who, what, when, where, why and how. The answers to these six questions should be mentioned in order of their importance to the story to save the editor time and space.

Don’t embellish or hype the information. Remember, you are not writing the article; you are merely presenting the information and showing why it is relevant to that publication in hopes that they will write about it. Pay close attention to grammar and spelling. Competition for publicity is
intense, and a press release full of typos or errors is more likely to get tossed aside.

Some business owners use attention-getting gimmicks to get their press releases noticed. In most cases, this is a waste of money. If your release is well-written and relevant, you don’t need singing telegrams or a bouquet of flowers to get your message across.

If you have the money to invest, you may want to try sending out a press kit. This consists of a folder containing a cover letter, a press release, your business card, and photos of your product or location. You can also include any other information that will convince reporters your business is newsworthy: reprints of articles other publications have written about your business, product reviews, or background information on the company and its principals. If you do send out a press kit, make sure it is sharp and professional-looking and that all graphic elements tie in with your company’s logo and image.

until you get him or her on the phone. Do not leave a second message within five days of the first. If the reporter requests additional information, send it immediately and follow up to confirm receipt.

Talking to the Media

Once you reach the reporter on the telephone, remember that he or she is extremely busy and probably on deadline. Be courteous, and ask if he or she has time to talk. If not, offer to call back at a more convenient time. If the reporter can talk to you, keep your initial pitch to 20 seconds; afterward, offer to send written information to support your story ideas.
The following tips will boost your chances of success:

- If a reporter rejects your idea, ask if he or she can recommend someone else who might be interested.
- Know exactly what you’re going to say before you telephone the reporter. Have it written down in front of you—it’s easier, and you’ll feel more confident.
- Everyone likes a compliment. If you’ve read a story you particularly enjoyed by the reporter you’re contacting, let him or her know. This will also show that you’re familiar with the reporter’s work.
- Be persistent. Remember, not everyone will be interested. If your story idea is turned down, try to find out why and use that information to improve your next pitch. Just keep going, and don’t give up. You will succeed eventually.
- Don’t be a pest. You can easily be persistent without being annoying. Use your instincts; if the reporter sounds rushed, offer to call back.
- Be helpful and become a resource by providing reporters with information. Remember, they need your story ideas. There are only so many they can come up with on their own.
- Always remember that assistants get promoted. Be nice to everyone you speak with, no matter how low they are on the totem pole. After you establish a connection, keep in touch; you never know where people will end up.
- Say thank you. When you succeed in getting publicity for your business, always write a thank-you note to the reporter who worked on it with you. You’d be surprised how much a note means.

Capitalize on old-fashioned publicity stunts. No, you don’t have to swallow goldfish or sit atop a telephone pole, but consider the landscaping company whose precision lawn-mowing team shows off its fancy footwork while marching in local parades.
Plan your publicity efforts just as carefully as you plan the rest of your business. You'll be glad you made the effort when you see your company featured in the news—and when you see the results in your bottom line.

**Special Events**

Ever since the first Wild West Show was staged to sell “Doctor Winthrop’s Miracle Elixir,” businesspeople have understood the value of promotional events. Even the most obscure product or service takes on new cachet when accompanied by a dash of showmanship. From “fun runs” to fashion shows, contests to concerts, businesses have learned it pays to be associated with special events.

In fact, special events are one of the fastest-growing areas of marketing today. And while large corporations shell out billions each year to host events, small companies, too, can use promotions to reach their market in a way no conventional method could.

No matter how spectacular an event is, however, it can’t stand alone. You can use advertising or public relations without doing a special event, but you need both advertising and public relations to make your event work. How do you put together the right mix to make your event successful?

First, you must know what you want to accomplish. The desired outcome of event marketing is no different from that of any other marketing effort: You want to draw attention to your product or service, create greater awareness of it and increase sales.

While the number of special event ideas is infinite, some general categories exist. Following are some of the most popular.

**Grand Openings**

You’re excited about opening your new business. Everyone else will be, too . . . right? Wrong. You have to create the excitement, and a knock-out grand opening celebration is the way to do it. From start to finish, your event has to scream “We’re here. We’re open. We’re ready to go.
Does your business use recycled paper products or donate to a homeless shelter? Today, many consumers consider such factors when deciding whether to patronize your business. A business’s “social responsibility” quotient can make a difference in its bottom line.

If you think getting involved in social causes would work for your business, here are some things to consider. First and foremost, customers can smell “phony” social responsibility a mile away, so unless you’re really committed to a cause, don’t try to exploit customers’ concerns to make a profit.

Consider these steps for making social responsibility work for you—and your community:

- **Set goals.** What do you want to achieve? What do you want your company to achieve? Do you want to enter a new market? Introduce a new product? Enhance your business’s image?

- **Decide what cause you want to align yourself with.** This may be your toughest decision, considering all the options out there: children, the environment, senior citizens, homeless people, people with disabilities—the list goes on. Consider a cause that fits in with your products or services; for example, a manufacturer of women’s clothing could get involved in funding breast cancer research. Another way to narrow the field is by considering not only causes you feel strongly about, but also those that your customers consider significant.

- **Choose a nonprofit or other organization to partner with.** Get to know the group, and make sure it’s sound, upstanding, geographically convenient and willing to cooperate with you in developing a partnership.
We’re better than, different from and more eager to serve you than our competitors. We want to get to know you and have you do business with us.”

A grand opening is one of the best reasons to stage a special event. No one thinks twice about why you’re blowing your own horn. What you want people to think about is what a great time they had at your event.

That means no run-of-the-mill, garden-variety ribbon-cutting. Be original. If you own an electronics store, open your doors via remote control. If you are opening a yarn store, unravel a huge knitted ribbon. If you sell sporting goods, reel in both ends of an enormous bow until the ribbon is untied. Whatever your specialty, do something unusual, entertaining and memorable.

Also give thought to what other activities go along with your grand opening. Design a terrific invitation, do plenty of publicizing, provide
quality refreshments and entertainment, select a giveaway that promotes your business (and draws people into the store to get it), and incorporate some way of tracking who attended your event (contest entry forms, coupons, free newsletter subscriptions, birthday club sign-ups and so on).

Entertainment and Novelty Attractions

Time, space and popular appeal are three things to consider if and when you host or sponsor a one-time special attraction. If space permits and a beach motif fits your business, having a huge sand castle built in your parking lot might draw attention and business for the entire time it takes to construct it.

Just keep in mind that the novelties and entertainment shouldn’t last so long or be so distracting that no one finds the time or inclination to do business with you. Think of these events as the appetizer, with your product or service as the main course.

Holidays and Seasons

Some of the most common and easily developed special events are based on holidays or times of year. For example, during the Christmas season, Santa’s Workshop can be found in thousands of communities, not just the North Pole. Or kick off the summer season with a Beach Boys music marathon.

Again, when planning an event tied to a holiday or season, make originality your motto. If the average December temperature in your city is a balmy 76 degrees, then don’t dredge up icicles and fake snow for the store. Take a cue from your locale: Put antlers on pink flamingos and dress Santa in shorts and sunglasses.
Celebrity Appearances

Working with celebrities is like buying a volatile stock—high risk but high return. If you are willing to go out on a limb, you may harvest the

YOU’RE THE EXPERT

As an entrepreneur, it’s your responsibility to get your business noticed—which means you’ve got to toot your own horn. You need to do whatever it takes to let others know you exist and that you are an expert source of information or advice about your industry.

Being regarded as an industry expert can do wonders for your business. How can you get your expertise known?

■ Start by making sure you know everything you can about your business, product and industry.

■ Contact experts in the field and ask them how they became experts.

■ Talk to as many groups as possible. (If public speaking strikes fear in your heart, you’d better get over it. This is one skill you’re going to need as an entrepreneur.) Volunteer to talk to key organizations, service clubs, business groups . . . whomever might be interested in what you have to say. Do it free of charge, of course, and keep it fun, interesting and timely.

■ Contact industry trade publications and volunteer to write articles, opinion pieces or columns. (If you can’t do that, write a letter to the editor.)

■ Offer seminars or demonstrations related to your business (a caterer could explain how to cook Thai food, for instance).

■ Host (or guest on) a local radio or TV talk show.

Do all this, and by the time you contact media people and present yourself as an expert, you’ll have plenty of credentials.

Celebrity Appearances

Working with celebrities is like buying a volatile stock—high risk but high return. If you are willing to go out on a limb, you may harvest the
sweetest fruit. Many celebrities are affable, cooperative and generous if they are treated professionally and supplied with all the necessary details in advance.

The key to using a celebrity to promote your business is knowing what kind of “personality” is appropriate for your company and marketing goals. Think about whom you want to attract, what kind of media coverage you want to generate, and what kind of impression you want to create.

Whether you are seeking soap stars, sports stars or movie stars, it’s usually best to contact their agents first. If you don’t know who a star’s agent is, contact a talent agency or the organization the celebrity works for.

Unless you know celebrities personally, you must consider the arrangement a commercial venture for them. There are literally hundreds of details to work out and opportunities at every turn for something to go wrong unless you are experienced in dealing with celebrities or you have contacted a reputable talent or public relations agency to help you.

Celebrities don’t have to be nationally known names, either. Think about local celebrities in your community who might be willing to be part of your special event. A politician, well-known businessperson or community leader can be an excellent addition to your big day.

**Co-Sponsoring**

You can partner with complementary businesses to host an event, or you can take part as a sponsor of an established charity or public cause. Sporting events, fairs and festivals have proved to be popular choices with good track records for achieving marketing goals. Keep in mind, not every event is right for every business. As with any marketing strategy, your event must be suited to your customers’ needs.

Think about how your company can benefit any event. If you are a florist, for instance, you could provide flowers for a wide range of charity luncheons or galas. A health-food retailer could provide free energy bars to participants in a local 10K race. Whatever you do, be
sure to promote it with press releases, a sign in your window or a mention in the event’s program.

**Anniversary Celebrations**

This is one special event most people can relate to. Staying in business for a number of years is something to be proud of, so why not share the achievement with others? Throw a party and invite current, past and prospective customers to enjoy your anniversary, too.

**Games and Contests**

From naming a mascot to guessing the number of jelly beans in a jar, contests are a proven means of attracting attention. But they pay off big only when they’re properly promoted and ethically managed. Be sure your prizes are first-rate and that you get the word out in a timely and professional manner. Let people know how and when they can participate. Think through all the ramifications of judging and selecting and awarding a prize. Check out the need for special permits or licenses well before staging any contest (it never hurts to get a legal opinion just to be on the safe side). Above all, deliver on your promises.

**Networking**

The ability to network is one of the most crucial skills any startup entrepreneur can have. How else will you meet the clients and contacts necessary to grow your business?

But many people are put off by the idea of networking, thinking it requires a phony, glad-handing personality that oozes insincerity. Nothing could be further from the truth.
Think a moment. What does a good networker do? How does he or she act? What is his or her basic attitude? You’ll probably be surprised at how much you instinctively know about the subject.

You may decide, for example, that a good networker should be outgoing, sincere, friendly, supportive, a good listener or someone who follows up and stays in touch. To determine other skills an effective networker needs, simply ask yourself “How do I like to be treated? What kinds of people do I trust and consider good friends?”

Now that you have an idea of what attributes a good networker must have, take an objective look at your own interactive abilities. Do you consider yourself shy and regard networking groups as threatening? Do you tend to do all the talking in a conversation? Do you give other people referrals and ideas without a thought to your own personal gain? Can people count on your word?

Many people go to networking events, but very few know how to network effectively. Networking is more than just getting out and meeting people. Networking is a structured plan to get to know people who will do business with you or introduce you to those who will.

The best way to succeed at networking is to make a plan, commit to it, learn networking skills and execute your plan. To make the best plan, ask yourself: What do I want to achieve? How many leads (prospects) do I want per month? Where do my customers and prospects go to network? What business organizations would benefit my business? How can I build my image and my business’s image? What would I like to volunteer to do in the community?

Make a five-year networking plan listing your five best customers, five targeted prime prospects and five targeted organizations. Next, set
goals for involvement in each organization, determine how much time you will need to commit to each organization and prospect, and decide what kinds of results you expect.

Now that you have a plan, get committed. Tell yourself that you will devote enough time and effort to make it work. Half the battle of networking is getting out there and in the swim.

The other half of the battle is learning to network effectively. Typically, ineffective networkers attend several networking groups but visit with the same friends each time. Obviously, this behavior defeats the entire purpose of networking. If you stick with familiar faces, you never meet anyone new. And since most people stay within their circle of friends, newcomers view the organization as a group of cliques. This is one reason people fear going to new organizations by themselves—they’re afraid no one will notice them.

The trick with networking is to become proactive. This means taking control of the situation instead of just reacting to it. Networking requires going beyond your comfort zone and challenging yourself. Try these tips:

■ *Set a goal to meet five or more new people at each event.* Whenever you attend a group, whether a party, a mixer or an industry luncheon, make a point of heading straight for people you don’t know. Greet the newcomers (they will love you for it!). If you don’t make this goal a habit, you’ll naturally gravitate toward the same old acquaintances.

■ *Try one or two new groups per month.* You can attend almost any organization’s meetings a few times before you must join. This is another way to stretch yourself and make a new set of contacts. Determine what business organizations and activities you would best fit into. It may be the chamber of commerce,
the arts council, a museum society, a civic organization, a baseball league, a computer club or the PTA. Attend every

### IMAGE POWER

Throughout this book, we’ve touched on various aspects of developing a corporate image. Your business cards, logo, signage and letterhead all tie into that image. So do your marketing materials and ads. It’s equally important to keep your image in mind when planning a publicity campaign.

Any events or causes you participate in should be in keeping with your business image. If your company is in a fun, creative industry, like the toy business, you can get zany and silly with special events like a balloon-popping race or pot-bellied pig races. On the other hand, if you’re in a serious industry like medical transcription or accounting, it makes more sense to take part in more serious events like a 10K walk or a blood drive.

The publications and broadcast stations you target with your publicity must fit your image, too. A company that makes clothes targeted at teenage skateboarders would prefer publicity in a cutting-edge lifestyle magazine rather than in a mainstream publication aimed at middle-aged moms. Think about how the publication or broadcast will affect your image, and make sure the results will be positive.

Don’t forget the most important parts of your public image: yourself and your employees. Your marketing materials and corporate sponsorships can tout your socially responsible, kind-hearted company . . . but if your employees are rude and uncaring toward customers, all your efforts to promote that image will be in vain.

Make sure your employees understand the image you are trying to convey to customers and how they contribute to creating that image. Show them by example how you want them to behave whenever they’re in the public eye.
function you can that synergizes your goals and customer/prospect interaction.

- **Carry your business cards with you everywhere.** After all, you never know when you might meet a key contact, and if you don’t have your cards with you, you lose out. Take your cards to church, the gym, parties, the grocery store—even on walks with the dog.

- **Don’t make a beeline for your seat.** Frequently, you’ll see people at networking groups sitting at the dinner table staring into space—half an hour before the meal is due to start. Why are they sitting alone? Take full advantage of the valuable networking time before you have to sit down. Once the meeting starts, you won’t be able to mingle.

- **Don’t sit by people you know.** Mealtime is a prime time for meeting new people. You may be in that seat for several hours, so don’t limit your opportunities by sitting with your friends. This is a wonderful chance to get to know new people on either side of you. Sure, it’s more comfortable to hobnob with familiar faces. But remember, you are spending precious time and money to attend this event. Get your money’s worth; you can talk to your friends some other time.

- **Get active.** People remember and do business with leaders. Don’t just warm a chair—get involved and join a committee or become a board member. If you don’t have time, volunteer to help with hospitality at the door or checking people in. This gives you a reason to talk to others, gets you involved in the inner workings of the group, and provides more visibility.

- **Be friendly and approachable.** Pretend you are hosting the event. Make people feel welcome. Find out what brought them there, and see if there’s any way you can help them. Introduce them to others, make business suggestions or give them a referral. Not only will you probably make a friend, but putting others at ease eliminates self-consciousness. A side benefit: What goes around comes around. If you make the effort to help others, you’ll soon find people helping you.
Set a goal for what you expect from each meeting. Your goals can vary from meeting to meeting. Some examples might be: learning from the speaker’s topic, discovering industry trends, looking for new prospects or connecting with peers. If you work out

THE MEET MARKET

To make the most of any networking situation, make sure to heed the following dos and don’ts:

Don’t spend too much time with one person, or you defeat the purpose of networking. Your objective is to take advantage of the entire room. If you spend three minutes with a prospect, that gives you a possibility of 20 contacts per hour. Spending five minutes with each person reduces that to 12 contacts and so on.

Do give others the chance to sell, too. At a networking event, everyone wants to sell. You may have to play buyer to get a chance to be a seller. You must be able to wear both hats.

Do know the kinds of problems you can solve rather than a bunch of boring facts about your product or service. Talk in terms of how you benefit customers rather than the product or service you offer.

Don’t be negative. Never complain about or bad-mouth a person or business. You never know whether the prospect you’re talking to has some connection, interest or affiliation with the people, company or product you’re slamming.

Don’t forget your manners. “Please” and “thank you” go a long way toward creating a good impression.

Do be prepared. When people ask you what you do, be ready to describe your business in one short, interesting sentence that intrigues and enlightens.
of your home, you may find your purpose is simply to get out and talk to people face to face. Focusing your mind on your goal before you even walk into the event keeps you on target.

- *Be willing to give to receive.* Networking is a two-way street. Don’t expect new contacts to shower you with referrals and business unless you are equally generous. Follow up on your contacts; keep in touch; always share information or leads that might benefit them. You’ll be paid back tenfold for your thoughtfulness.

Now that you know how to network in person, learn the fine art of social media networking in Part 7, Chapter 36.
No matter what business you’re in, if you’re an entrepreneur, you’re in sales. “But I hate to sell,” you groan. You’re not alone. Many people are intimidated by selling—either because they’re not sure how to proceed or they think they don’t have the “right” personality to sell.

Well, guess what? Anyone can sell—anyone, that is, who can learn to connect with the customer, listen to his or her needs and offer the right solutions. In fact, as your business’s founder, you’re better positioned than anyone else to sell your products and services. Even if you have a team of crack salespeople, there’s no one else who has the same passion for, understanding of and enthusiasm about your product as you do. And once you finish reading this chapter, you’ll have plenty of sales skills as well.
Understanding Your Unique Selling Proposition

Before you can begin to sell your product or service to anyone else, you have to sell yourself on it. This is especially important when your product or service is similar to those around you. Very few businesses are one of a kind. Just look around you: How many clothing retailers, hardware stores, air conditioning installers and electricians are truly unique?

The key to effective selling in this situation is what advertising and marketing professionals call a “unique selling proposition” (USP). Unless you can pinpoint what makes your business unique in a world of homogeneous competitors, you cannot target your sales efforts successfully.

Pinpointing your USP requires some hard soul-searching and creativity. One way to start is to analyze how other companies use their USPs to their advantage. This requires careful analysis of other companies’ ads and marketing messages. If you analyze what they say they sell, not just their product or service characteristics, you can learn a great deal about how companies distinguish themselves from competitors.

For example, Charles Revson, founder of Revlon, always used to say he sold hope, not makeup. Some airlines sell friendly service, while others sell on-time service. Neiman Marcus sells luxury, while Walmart sells bargains.

Each of these is an example of a company that has found a USP “peg” on which to hang its marketing strategy. A business can peg its USP on product characteristics, price structure, placement strategy (location and distribution) or promotional strategy. These are what marketers call the “four Ps” of marketing. They are manipulated to give a business a market position that sets it apart from the competition.
You can find salespeople of all ranges, temperaments and styles of selling. Some are more aggressive than others. Some are more consultative. Some are highly educated, some not so. But they’re all champs because they’re the ones who consistently build the business, keep the territory and retain their customers. And they share these three traits:

1. **Attitude.** Attitude makes all the difference. Sales champs set priorities and keep things moving forward, ending each day with a sense of accomplishment. Sales champs don’t let losing a deal get them down. If they can’t change a situation, they change their attitude about it. In sales, you’ve got to make things happen for your business—and the best salespeople can’t wait to get started every day.

2. **Tenacity.** When sales champs know they have something of value for a prospect or client, they don’t give up. They learn more about the situation, the potential customer and the customer’s company. They study what went wrong and improve their approach for the next time so they can come back with new ideas. They are not easily defeated. However, sales champs understand when they’re wasting time and when it’s best to move on to the next tactic or even the next sale. If you get smarter each time you come back, you will succeed. When prospects see how much you believe in your vision and in their goals they, too, will be enthusiastic about what you have to offer.

3. **Follow-through.** A broken promise makes it extremely difficult to regain a customer’s trust. Sales champs don’t make promises they can’t keep. They don’t try to be everything to everybody. But once they give their word, they stick to it.

A sales champ doesn’t exhibit all these traits all the time. Sales champs have the same flaws as everyone else. But they know that in the end, the harder they work at sharpening these traits, the better these traits will work for them.
Sometimes a company focuses on one particular “peg,” which also drives the strategy in other areas. A classic example is Hanes L'Eggs hosiery. Back in an era when hosiery was sold primarily in department stores, Hanes opened a new distribution channel for hosiery sales. The idea: Since hosiery was a consumer staple, why not sell it where other staples were sold—in grocery stores?

That placement strategy then drove the company’s selection of product packaging (a plastic egg) so the pantyhose did not seem incongruent in the supermarket. And because the product did not have to be pressed and wrapped in tissue and boxes, it could be priced lower than other brands.

Here’s how to uncover your USP and use it to power up your sales:

■ *Put yourself in your customer’s shoes.* Too often, entrepreneurs fall in love with their product or service and forget that it is the customer’s needs, not their own, that they must satisfy. Step back from your daily operations and carefully scrutinize what your customers really want. Suppose you own a pizza parlor. Sure, customers come into your pizza place for food. But is food all they want? What could make them come back again and again and ignore your competition? The answer might be quality, convenience, reliability, friendliness, cleanliness, courtesy or customer service.

Remember, price is never the only reason people buy. If your competition is beating you on pricing because they are larger, you have to find another sales feature that addresses the customer’s needs.
and then build your sales and promotional efforts around that feature.

- **Know what motivates your customers’ behavior and buying decisions.** Effective marketing requires you to be an amateur psychologist. You need to know what drives and motivates customers. Go beyond the traditional customer demographics, such as age, gender, race, income and geographic location, that most businesses collect to analyze their sales trends. For our pizza shop example, it is not enough to know that 75 percent of your customers are in the 18-to-25 age range. You need to look at their motives for buying pizza—taste, peer pressure, convenience and so on.

  Cosmetics and liquor companies are great examples of industries that know the value of psychologically oriented promotion. People buy these products based on their desires (for pretty women, luxury, glamour and so on), not on their needs.

- **Uncover the real reasons customers buy your product instead of a competitor’s.** As your business grows, you’ll be able to ask your best source of information: your customers. For example, the pizza entrepreneur could ask them why they like his pizza over others, plus ask them to rate the importance of the features he offers, such as taste, size, ingredients, atmosphere and service. You will be surprised how honest people are when you ask how you can improve your service.

  Since your business is just starting out, you won’t have a lot of customers to ask yet, so “shop” your competition instead. Many retailers routinely drop into their competitors’ stores to see what and how they are selling. If you are really brave, try asking a few of the customers after they leave the premises what they like and dislike about the competitors’ products and services.

  Once you have gone through this three-step market intelligence process, you need to take the next—and hardest—step: clearing your mind of any preconceived ideas about your product or service and being brutally honest. What features of your business jump out at you
as something that sets you apart? What can you promote that will make customers want to patronize your business? How can you position your business to highlight your USP?

Do not get discouraged. Successful business ownership is not about having a unique product or service; it’s about making your product stand out—even in a market filled with similar items.

**Cold-Calling**

The aspect of selling that strikes the greatest fear in people’s hearts is usually cold calls. A good way to make cold calls more appealing is to stop thinking of them as “cold” calls. Try thinking of them as “introductory” calls instead. All you are trying to do is introduce yourself and your business to the prospect.

It’s important to understand the purpose of introductory calls so you have a realistic attitude about this type of business development activity. Phone prospecting takes longer to pay off than other types of marketing efforts, so go into it knowing you’re exploring a new frontier, and it’s going to take some time to get results.

Just as with any marketing method, you should never make introductory calls without a plan. First, always use a targeted list of prospects when making your calls. If your product is household cleaning services, why call a random neighborhood if you have no knowledge of income levels, number of household wage earners, or number of children? If you sell nutritional products to hospitals, why call nurses or doctors if a third-party pharmacy makes all the buying decisions? Get the right list of prospects.

You can obtain information about prospects from the list broker who provides you with the list; if you are working from your house list,
you should already have the information. If for some reason you don’t, try an introductory call like the following: “We provide mobile pet grooming for dogs and cats. Would that be a service your customers would want to know about, Mr./Ms. Veterinarian?”

Next, determine the best time frames for calling. If you are selling financial services to upper-income CEOs or entrepreneurs, wouldn’t it be nice to know when their corporate fiscal years end? Perhaps most of their investment purchases are made two to four weeks prior to that year-end close-out. That’s when they know how much extra income needs to be sheltered in a pension plan.

Sometimes timing is your ace in the hole. Granted, follow-up calls throughout the year may make that one important sale possible, but knowing when to instigate the first call is a priceless piece of information.

Third, plan by preparing a “sales script” ahead of time. Write down what you are going to say, what responses the prospect is likely to have and how you will reply to them. No, you’re not going to follow this word for word, but if you’re nervous about making calls, it helps to have something in front of you. Chances are, after you get beyond the opening sentences, you’ll be able to “wing it” just fine.

If preparation for cold-calling is easy but actually making calls is painful for you, here are seven easy steps to get you on the phone fast.

1. Personalize each call by preparing mentally. Your mind-set needs to be aligned with your language, or the conversation will not ring true. You need to work on developing a warm but not sugarcoated telephone voice.

Got cold-call phobia? Psych yourself up with a numbers game: If every sale brings you $200 profit and it takes an average of 10 calls to make one sale, then each “no” is worth $20. Or try the “immersion” technique: Make 100 cold calls without worrying about the results. When it’s over, you’ll have learned a great deal about selling . . . and your fear of cold calls will be history.
that has that “Don’t I know you?” or “Gee, you sound familiar” ring to it.

2. **Perfect your phone style alone before making any calls.** If you are self-conscious about calling, you need to feel safe to act uninhibited. Try this: Gather a tape recorder, a mirror, a sales journal of incoming and outgoing phone scripts, a pen and a legal-sized pad. Either write or select a favorite phone dialogue; then talk to yourself in the mirror. Do you look relaxed, or are your facial expressions rigid? Our exteriors reflect our inner selves. If you look like you’re in knots, your voice will sound strained as well.

   Push the “record” button on your tape recorder, and pretend you’re talking to a new prospect. Play back the tape, and listen to your conversation. Ask yourself how you could improve your delivery. If your voice seems unnatural and the dialogue contrived, do not despair. As you practice and participate in real phone experiences, you will improve. Mastering the art of cold-calling is no different than improving your golf swing or skiing technique.

3. **Create familiarity all around you.** Use family photos, framed testimonial letters, motivational quotes, or whatever gets you in a positive, enthusiastic mood. If you like, play some music that inspires you.

4. **Use your imagination.** Pretend you are a prospective customer calling a bookstore to see if they have a book in stock. If it helps, record how you sound to get the feel of your inquiring phone voice. It’s always easier to imagine you’re a customer in need of information than a salesperson trying to force your way into the customer’s time. The inquiry call is good practice because the tone of the conversation is “Can you help me?” or “I need some

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**WARNING**

Never waste a buyer’s time. Whenever you call on a prospect, whether in person or by phone, be organized and prepared with facts, figures, demonstrations and answers.
information.” Try to convey that same attitude when you use the phone to contact future customers.

5. **Watch your tone of voice.** You do not want to sound sheepish and embarrassed, nor do you want to be arrogant. The ideal tone is warm, businesslike, curious and straight to the point. A good

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**VOICE-MAIL VICTORIES**

When making cold calls, always leave voice-mail messages if possible instead of leaving messages with a secretary. No one can transmit your enthusiasm for your products or services the way you can. Here are some tips to make the most of voice mail.

- **State your business.** Clearly tell prospects who you are and why they should be interested in talking to you. “Hello, my name is Jane Smith, and I’m with the Smith Co. We’re the people who conduct one-day Sales Power seminars all over the country. Our seminar is coming to your area, and I’d like to tell you about it.”

- **Offer good news.** After identifying yourself and your business, say “I have some really good news I’d like to share with you.”

- **Be courteous.** Use the phrase “I’d appreciate the courtesy of a return call at (number).” Be careful of your tone of voice so that you don’t sound condescending.

- **Follow up with a fax.** Send a fax that says “Mr. Wilson, please check your voice mail for an important message.” Or leave a voice-mail message saying “I’m faxing you the information; if it is of interest to you, please give me a call.”

- **Always leave your phone number—twice.** Repeat your number near the end of the message. Practice writing it down as you talk so you don’t go too quickly.
option is a question or a cut-to-the-chase statement such as: “I’ve got a problem. We are offering a two-for-one special during the next 30 days on all our coffee drinks, just to get people into the store. I need to know if you have ever stopped in while shopping at the mall, and, if not, why not? We have got the greatest ice-blended mochas in town.”

6. Make your goal a fast “50 in 150”—that is, 50 calls in 150 minutes. Three minutes per call is all you need. With so many voice-mail systems intercepting calls today, this should be easy. Never give people the impression you have time to chat. Chatting is not prospecting. You’re on a mission. Get to the point, then move to the next prospect.

7. Take five after 15. After 15 calls, take a five-minute break—stretch, eat, sip a soda, turn on some tunes, and pat yourself on the back because you’re making it happen. Then grab the phone for 15 more calls.

Following Up

Your initial cold call typically will not result in a sale, or even in an appointment to make a sales presentation. One study shows it takes an average of seven contacts, impressions or follow-ups to make a sale.

Think of each follow-up contact as a chance to get closer to the prospect and change his or her mind about meeting with you. Plan your follow-up contacts carefully, and be flexible and creative.

How do you start the follow-up call? Here are some lead-in lines:

- “I thought of a few things that might help you decide . . .”
- “Something recently happened that I thought you might want to know about . . .”
- “There has been a change in the status of . . .”
- “I just was thinking about you recently and I wanted to tell you about . . .”

Here are other sales tools you can use in follow-up situations:
TEAM WORK

The right sales team—whether they are in-house employees or outside sales representatives—makes a big difference in how quickly your company grows. How to make sure you’re hiring the right people? Try these tips:

- **Don’t rely solely on resumes.** Good salespeople sell themselves so well, they don’t even need resumes.

- **Try placing a classified ad that says “send resume to (address) or call (number).”** Don’t even look at the resumes; just interview the people who call. These are the people who won’t be afraid to pick up the phone and make cold calls.

- **In the first phone contact, if the applicant doesn’t ask for an appointment, stop right there.** If the person doesn’t ask for an interview now, he or she won’t ask for orders later.

- **Does the person sound like someone you want to spend time with?** If you don’t want to, neither will your customers.

- **When they first call, tell them you’re busy and will call them back.** Then don’t. If they don’t call back, they lack the persistence you need in a salesperson.

- **Does the applicant listen?** If they’re too busy talking, they’ll be too busy to listen to your customers.

- **At the end of the call, say you plan to talk to several candidates and will get back to them.** Wait until one says “You don’t need to talk to more people. I’m the one you want.” That’s the kind of person you need.

- **A personal note.** A handwritten note on your company note cards is far more effective than a typed business letter.
An endorsement from a mutual friend. A friend is far more influential than you are.

An article about your company. Something in print can work wonders. You can even send articles about the prospect’s company or, better yet, about a personal interest of the prospect. “Thought you might be interested in . . .”

An invitation to visit your facility. Bring the prospect to your home turf.

A meal. Meetings in a nonbusiness environment are powerful and help you build personal relationships that lead to sales.

Making Sales Presentations

Your cold calls and follow-up efforts have paid off, and you have made an appointment to visit a prospect in person and make a sales presentation. How can you make sure it’s a success? Four elements determine whether a sale will be made or not:

1. Rapport: putting yourself on the same side of the fence as the prospect
2. Need: determining what factors will motivate the prospect to listen with the intent to purchase
3. Importance: the weight the prospect assigns to a product, feature, benefit, price or time frame
4. Confidence: your ability to project credibility, to remove doubt, and to gain the prospect’s belief that the risk of purchase will be less than the reward of ownership
Here is a closer look at the steps you can take to make your sales presentation a success.

**Before the Presentation**

- **Know your customer’s business.** Potential clients expect you to know their business, customers and competition as well as you know your own product or service. Study your customer’s industry. Know its problems and trends. Find out who the company’s biggest competitors are. Some research tools include the company’s annual report, brochures, catalogs, and newsletters; trade publications; chamber of commerce directories; and the internet.

- **Write out your sales presentation.** Making a sales presentation isn’t something you do on the fly. Always use a written presentation. The basic structure of any sales presentation includes five key points: Build rapport with your prospect, introduce the business topic, ask questions to better understand your prospect’s needs, summarize your key selling points, and close the sale. Think about the three major selling points of your product or service. Develop leading questions to probe your customer’s reactions and needs.

- **Make sure you are talking to the right person.** This seems elementary, but many salespeople neglect to do it. Then, at the last minute, the buyer wriggles off the hook by saying he or she needs a boss’s, spouse’s or partner’s approval. When you are setting the appointment, always ask “Are you the one I should be talking to, or are there others who will be making the buying decision?”

**AHA!**

Condition prospects to say yes by asking questions they will agree with. “It’s a great day, isn’t it?” or “You got an early start today, didn’t you?” Little questions like these help start customers on a momentum that builds trust. Subconsciously, because they are agreeing with you, they begin to trust you.
In the Customer’s Office

- **Build rapport.** Before you start discussing business, build rapport with your prospect. To accomplish this, do some homework. Find out if you have a colleague in common. Has the prospect’s company been in the news lately? Is he or she interested in sports? Get a little insight into the company and the individual so you can make the rapport genuine.

- **Ask questions.** Don’t jump into a canned sales spiel. The most effective way to sell is to ask the prospect questions and see where he or she leads you. (Of course, your questions are carefully structured to elicit the prospect’s needs—ones that your product just happens to be able to fill.)

  Ask questions that require more than a yes or no response, and that deal with more than just costs, price, procedures and the technical aspects of the prospect’s business. Most important, ask questions that will reveal the prospect’s motivation to purchase, his or her problems and needs, and the prospect’s decision-making processes. Don’t be afraid to ask a client why he or she feels a certain way. That’s how you’ll get to understand your customers.

- **Take notes.** Don’t rely on your memory to remind you of what’s important to your prospect. Ask upfront if it’s all right for you to take notes during your sales presentation. (Prospects will be flattered.) Write down key points you can refer to later during your presentation.

  Be sure to write down objections. This shows your prospect you are truly listening to what he or she is saying. In this way, you can specifically answer objections by showing how the customer will benefit from your product or service. It could be, for instance, by saving money, raising productivity, increasing employee motivation, or increasing his or her company’s name recognition.

- **Learn to listen.** Salespeople who do all the talking during a presentation not only bore the prospect, but also generally lose the
Want to improve your sales presentation skills? Use these strategies to hone your speaking abilities:

- **Tag-team-sell for evaluation purposes.** Have a colleague go on sales calls with you once a week to listen to your presentation. Create a review form for them to fill out immediately after your performance. (Include your strengths as well as your weaknesses.) Read it right away, and talk about what you can do to improve.

- **Record your telephone sales conversations.** Use them as a self-monitor of your ability to present a clear and confident message. Play them back. If you can’t stand your voice, change your pitch.

- **Read a chapter from a sales book aloud, recording it on audiotape.** Play it in your car. You’ll learn about sales and about how you present your pitch. Would you buy from yourself? If not, record another version with style and emotion.

- **Videotape the first five minutes of your sales presentation.** Ask a friend or colleague to be the prospect. Watch the video together, and rate your performance. Repeat the process once a week for two months. Work to eliminate your two worst habits; at the same time, work to enhance your two best strengths.

Above all, be yourself. Don’t put on an act. Your personality will shine if you believe in what you are saying. Being genuine will win the prospect’s confidence . . . and the sale.

sale. A good rule of thumb is to listen 70 percent of the time and talk 30 percent of the time. Don’t interrupt. It’s tempting to step in and tell the prospect something you think is vitally important. Before you speak, ask yourself if what you’re about to say is really necessary.
When you do speak, focus on asking questions. Pretend you are Barbara Walters interviewing a movie star: Ask questions; then shut up. You can improve your listening skills by taking notes and observing your prospect’s body language, not jumping to conclusions.

- **Answer objections with “feel,” “felt” and “found.”** Don’t argue when a prospect says “I’m not interested,” “I just bought one,” or “I don’t have time right now.” Simply say “I understand how you feel. A lot of my present customers felt the same way. But when they found out how much time they saved by using our product, they were amazed.” Then ask for an appointment. Prospects like to hear about other people who have been in a similar situation.

- **Probe deeper:** If a prospect tells you “We’re looking for cost savings and efficiency,” will you immediately tell him how your product meets his need for cost savings and efficiency? A really smart salesperson won’t—he or she will ask more questions and probe deeper: “I understand why that is important. Can you give me a specific example?” Asking for more information—and listening to the answers—enables you to better position your product and show you understand the client’s needs.

- **Find the “hot button.”** A customer may have a long list of needs, but there is usually one “hot button” that will get the person to buy. The key to the hot button is that it is an emotional, not practical, need—a need for recognition, love or reinforcement. Suppose you are selling health-club memberships. For a

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**AHA!**

Offer a first-time incentive to help clinch the sale. If prospects like your product or service, they’ll be inclined to make a decision now rather than wait a few days or put off the decision indefinitely. First-time incentives might include “10 percent off with your purchase today” or “With today’s purchase, you’ll receive one free hour of consultation.”
prospect who is planning a trip to Hawaii in two months, the hot button is likely to be losing a few pounds and looking good in a bikini. For a prospect who just found out he has high blood pressure, the hot button could be the health benefits of exercise. For a busy young mother, the hot button may be the chance to get away from the kids for a few hours a week and reduce stress.

- **Eliminate objections.** When a prospect raises an objection, don’t immediately jump in with a response. Instead, show empathy by saying “Let’s explore your concerns.” Ask for more details about the objection. You need to isolate the true objection so you can handle it. Here are some ways to do that:

  1. **Offer a choice.** “Is it the delivery time or the financing you are concerned about?”
  2. **Get to the heart of the matter.** “When you say you want to think about it, what specifically did you want to think about?”
  3. **Work toward a solution.** Every sale should be a win-win deal, so you may need to compromise to close the deal: “I’ll waive the delivery charge if you agree to the purchase.”

As you get more experience making sales calls, you’ll become familiar with different objections. Maintain a list of common objections and ways you have successfully dealt with them.

- **Close the sale.** There is no magic to closing the sale. If you have followed all the previous steps, all you should have to do is ask for the customer’s order. However, some salespeople make the mistake of simply not asking for the final decision. It’s as if they forget what their goal is!

  For some, “closing” sounds too negative. If you’re one of them, try changing your thinking to something more positive,
such as “deciding.” As you talk with the customer, build in the close by having fun with it. Say something like “So how many do you want? We have it in a rainbow of colors; do you want them all?” Make sure to ask them several times in a fun, non-threatening way; you’re leading them to make the decision.

After the Sale

■ Follow up. What you do after the sale is as crucial as what you do to get it. “Nearly 85 percent of all sales are produced by word-of-mouth referrals,” says sales guru Brian Tracy. “In other words, they’re the result of someone telling a friend or associate to buy a product or service because the customer was satisfied.”

THE PRICE ISN’T RIGHT

How do you overcome that most common objection, “Your price is too high”? Lawrence L. Steinmetz, author of How to Sell at Prices Higher Than Your Competitors, says you need to learn how to acknowledge that your price is higher than competitors’ and use that as a selling tool.

Showing that customers get more services, better warranties or higher-quality products for the extra cost makes the higher price seem less imposing. Telling them why the competition’s services or products don’t measure up differentiates you from the competition and convinces customers you’re worth the extra money.

Whatever you do, don’t be too willing to negotiate or slash prices. “When you ask a customer ‘Is that too much?’ you are encouraging him or her to beat you up,” says Steinmetz.

With the right ammunition, you can turn price problems into selling points.
Concentrate on developing future and referral business with each satisfied customer. Write thank-you notes, call the customer after the sale to make sure he or she is satisfied, and maintain a schedule of future communications. Be in front of that client, and always show attention and responsiveness. (For more on retaining customers, see Chapter 33.)

■ Ask for feedback. Ask customers what you need to do to maintain and increase their business. Many customers have minor complaints but will never say anything. They just won’t buy from you again. If you ask their opinions, on the other hand, they’ll be glad to tell you—and, in most cases, will give you a chance to solve the problem.

**Speaking Effectively**

The difference between good and great salespeople is the way they deliver their messages. You can have the greatest sales pitch in the world, but if you deliver it with no enthusiasm, sincerity or belief, you will lose the sale.

Here are some suggestions to improve your speaking skills and power up your presentations:

■ *Speak clearly.* If the prospect doesn’t understand you, you won’t get the sale.

■ *Lean forward.* Leaning into the presentation gives the prospect a sense of urgency.

■ *Don’t fidget.* Knuckle-cracking, hair-twirling and similar nervous habits detract from your presentation.

■ *Don’t “um,” “ah” or “er.”* These vocal tics are so irritating, they make the prospect focus on the flaws rather than the message. Best cure? Practice, practice, practice.
PASS IT ON

Referrals are among a salesperson’s best weapons. Yet many salespeople fail to take advantage of this powerful marketing tool. Here are secrets to getting and making the most of referrals:

- Ask for specific referrals. Many salespeople ask for referrals by saying “Do you know anyone else who might be interested in my product?” The prospect replies “Not off the top of my head, but I’ll let you know if I think of anyone.” And that’s where it ends. More effective is to ask for a specific referral that deals with a need your business addresses. For instance, ask “Steve, at your last Rotary Club meeting, did you talk to anyone who was thinking about moving or selling a home?”

- Gather as much information about the referral as possible. Use this to prepare for the cold call.

- Ask your customer for permission to use his or her name when contacting the referral.

- Ask your customer to help you get an appointment with the referral.

- Contact the referral as soon as possible.

- Inform your customer about the outcome of the referral. People like to know when they have been of help.

- Prospect for referrals just as you would for sales leads.

- Be animated. Act as if the best thing in the world just happened to you.

- Vary your voice. Don’t drone on in a monotone. Punch the critical words. Go from high to low tones. Whisper some of the key information as if it’s a secret. Get the prospect to lean into your words. Make him or her feel fortunate to be receiving this message.
Look prospects in the eye. Eye contact signals credibility and trustworthiness.

Follow the prospect’s lead. Keep your tone similar to his or her tone. If the prospect is stuffy and conservative, do not get too wild.

Relax. High anxiety makes prospects nervous. Why do salespeople get nervous? Either they are unprepared or they need the money from the sale. Calm down. Never let them see you sweat.

TIP

Sell benefits, not features. The biggest mistake entrepreneurs make is focusing on what their product or service is (its features). Rather, it’s what it does (its benefits) that’s important. A health-food product contains nutrients that are good for the body. That’s what it is. What the product does is make the customer thinner, more energetic, and able to do more with less sleep.
To the ordinary entrepreneur, closing and finalizing the sale is the completion of serving the customer’s needs. But for the pro, this is only the beginning. Closing the sale sets the stage for a relationship that, if properly managed by you, the entrepreneur, can be mutually profitable for years to come.

Remember the “80–20 rule” discussed in an earlier chapter? The rule states that 80 percent of your business comes from 20 percent of your customers. Repeat customers are the backbone of every successful business. So now that you know how to land customers, it is time to learn how to keep them.

To ensure you don’t drop the ball on follow-up, check out one of the many contact management or sales software programs on the market. These little wonders can remind you of everything from a big client’s birthday to an important sales call.
Building Customer Relationships

It’s tempting to concentrate on making new sales or pursuing bigger accounts. But attention to your existing customers, no matter how small they are, is essential to keeping your business thriving. The secret to repeat business is following up in a way that has a positive effect on the customer.

Effective follow-up begins immediately after the sale, when you call the customer to say “thank you” and find out if he or she is pleased with your product or service. Beyond this, there are several effective ways to follow up that ensure your business is always in the customer’s mind.

■ *Let customers know what you are doing for them.* This can be in the form of a newsletter mailed to existing customers (see Chapter 30), or it can be more informal, such as a phone call.

Whichever method you use, the key is to dramatically point out to customers what excellent service you are giving them. If you never mention all the things you’re doing for them, customers may not notice. You are not being cocky when you talk to customers about all the work you have done to please them. Just make a phone call and let them know they don’t have to worry because you handled the paperwork, called the attorney or double-checked on the shipment—one less thing they have to do.

■ *Write old customers personal, handwritten notes frequently.* “I was just sitting at my desk, and your name popped into my head. Are you still having a great time flying all over the country? Let me know if you need another set of luggage. I can stop by with our latest models anytime.” Or, if you run into an old customer at an event, follow up with a note: “It was great seeing you at the CDC Christmas party. I will call you early in the new year to schedule a lunch.”

■ *Keep it personal.* Voice mail and e-mail make it easy to communicate, but the personal touch is lost. Don’t count these as a legitimate follow-up. If you’re having trouble getting through,
leave a voice-mail message that you want to talk to the person directly or will stop by his or her office at a designated time.

- **Remember special occasions.** Send regular customers birthday cards, anniversary cards, holiday cards... you name it. Gifts are excellent follow-up tools, too. You don’t have to spend a fortune to show you care; use your creativity to come up with interesting gift ideas that tie into your business, the customer’s business or his or her recent purchase.

- **Pass on information.** If you read an article, see a new book, or hear about an organization that a customer might be interested in, drop a note or make a quick call to let them know.

- **Consider follow-up calls business development calls.** When you talk to or visit old clients or customers, you’ll often find they have referrals to give you, which can lead to new business.

With all that your existing customers can do for you, there’s simply no reason not to stay in regular contact with them. Use your imagination, and you’ll think of plenty of other ideas that can help you develop a lasting relationship.

**Customer Service**

There are plenty of things you, the entrepreneur, can do to ensure good customer service. And when you’re a one-person business, it’s easy to stay on top of what your customers want. But as you add employees, whether it’s one person or 100, you are adding more links to the customer service chain—and creating more potential for poor service along the way.

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**e-FYI**

Feeling alone? Wish you had someplace to advise you on better customer service? Try the International Customer Service Association’s website (icsa.com). You’re required to join the organization to reap the benefits, but there are plenty of them—from networking opportunities to customer service training programs.
That’s why creating a customer service policy and adhering to it is so important. Here are some steps you can take to ensure that your clients receive excellent service every step of the way.

- **Put your customer service policy in writing.** These principles should come from you, but every employee should know what the rules are and be ready to live up to them.

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**GO TO THE SOURCE**

Excellent customer service is more than what you say or do for the customer; it also means giving customers a chance to make their feelings known. Here are some suggestions for finding out what your customers want, need and care about:

- **Attend trade shows and industry events that are important to your customers.** You’ll find out what the competition is doing and what kinds of products and services customers are looking for.

- **Nurture a human bond, as well as a business one, with customers and prospects.** Take them out to lunch, dinner, the ballgame or the opera. In the relaxed atmosphere of socializing, you’ll learn the secrets that will allow you to go above and beyond your competition.

- **Keep alert for trends; then respond to them.** Read industry trade publications; be active in trade organizations; pay attention to what your customers are doing.

- **Ask for feedback.** Survey your customers regularly to find out how you’re doing. Send postage-paid questionnaire cards or letters; call them by phone; set up focus groups. Ask for suggestions; then fix the trouble areas revealed.

Whatever you do, don’t rest on your laurels. Regularly evaluate your product or service to be sure it is still priced, packaged and delivered right.
Establish support systems that give the employees clear instructions for gaining and maintaining service superiority. These systems will help you out-service any competitor by giving more to customers and anticipating problems before they arise.

Develop a measurement of superb customer service. Then reward employees who practice it consistently.

Be certain that your passion for customer service runs rampant throughout your company. Your employees should see how good service relates to your profits and to their future with the company.

Be genuinely committed to providing more customer service excellence than anyone else in your industry. This commitment must be so powerful that every one of your customers can sense it.

Share information with people on the front lines. Meet regularly to talk about improving service. Solicit ideas from employees—they are the ones who are dealing with the customers most often.

Act on the knowledge that customers value attention, competence, promptness and dependability. They love being treated as individuals and being referred to by name. (Don’t you?)

Interacting with Customers

Principles of customer service are nice, but you need to put those principles into action with everything you do and say. There are certain “magic words” that customers want to hear from you and your staff. Make sure all your employees understand the importance of these key words:

“How can I help?” Customers want the opportunity to explain in detail what they want and need. Too often, business owners feel the desire or the obligation to guess what customers need rather than carefully listening first. By asking how you can help, you
Studies show that the vast majority of dissatisfied customers will never tell you they’re dissatisfied. They simply leave quietly, then tell everyone they know not to do business with you. So when a customer does complain, don’t think of it as a nuisance—think of it as a golden opportunity to change that customer’s mind and retain his or her business.

Even the best product or service meets with complaints or problems now and then. Here’s how to handle them for positive results:

- Let customers vent their feelings. Encourage them to get their frustrations out in the open.
- Never argue with a customer.
- Never tell a customer “You do not have a problem.” Those are fighting words.
- Share your point of view as politely as you can.
- Take responsibility for the problem. Don’t make excuses. If an employee was sick or a third-party supplier let you down, that’s not the customer’s concern.
- Immediately take action to remedy the situation. Promising a solution then delaying it only makes matters worse.
- Empower your front-line employees to be flexible in resolving complaints. Give employees some leeway in deciding when to bend the rules. If you don’t feel comfortable doing this, make sure they have you or another manager handle the situation.
- Imagine you’re the one with the complaint. How would you want the situation to be handled?
begin the dialogue on a positive note (you are “helping,” not “selling”). And by using an open-ended question, you invite discussion.

■ “I can solve that problem.” Most customers, especially B2B customers, are looking to buy solutions. They appreciate direct answers in a language they can understand.

■ “I don’t know, but I’ll find out.” When confronted with a truly difficult question that requires research on your part, admit it. Few things ruin your credibility faster than trying to answer a question when you are unsure of all the facts. Savvy buyers may test you with a question they know you can’t answer, and then just sit quietly while you struggle to fake an answer. An honest reply enhances your integrity.

■ “I will take responsibility.” Tell your customer you realize it’s your responsibility to ensure a satisfactory outcome to the transaction. Assure the customer you know what she expects and will deliver the product or service at the agreed-upon price. There will be no unexpected expenses or changes required to solve the problem.

■ “I will keep you updated.” Even if your business is a cash-and-carry operation, it probably requires coordinating and scheduling numerous events. Assure your customers they will be advised of the status of these events. The longer your lead time, the more important this is. The vendors that customers trust the most are those that keep them apprised of the situation, whether the news is good or bad.

■ “I will deliver on time.” A due date that has been agreed upon is a promise that must be kept. “Close” does not count.

■ “Monday means Monday.” The first week in July means the first week in July, even though it contains a national holiday. Your clients are waiting to hear you say “I deliver on time.” The supplier who consistently does so is a rarity and well-remembered.

■ “It will be just what you ordered.” It will not be “similar to,” and it will not be “better than” what was ordered. It will be exactly
what was ordered. Even if you believe a substitute would be in the client’s best interests, that’s a topic for discussion, not something you decide on your own. Your customer may not know (or be at liberty to explain) all the ramifications of the purchase.

■ “The job will be complete.” Assure the customer there will be no waiting for a final piece or a last document. Never say you will be finished “except for . . .”

■ “I appreciate your business.” This means more than a simple “Thanks for the order.” Genuine appreciation involves follow-up calls, offering to answer questions, making sure everything is performing satisfactorily, and ascertaining that the original problem has been solved.

Neglecting any of these steps conveys the impression that you were interested in the person only until the sale was made. This leaves the buyer feeling deceived and used, and creates ill will and negative advertising for your company. Sincerely proving you care about your customers leads to recommendations . . . and repeat sales.

**Going Above and Beyond**

These days, simply providing adequate customer service is not enough. You need to go above and beyond the call of duty to provide customer service that truly stands out. How to do this?

Begin by thinking about your own experiences as a customer—what you have liked and disliked in certain situations. Recall the times you were delighted by extra efforts taken to accommodate your needs
or outraged by rudeness or negligence. This will give you greater insight into what makes for extraordinary customer service.

To put yourself in the customer’s shoes, try visiting a wide range of businesses your customers are likely to frequent. This could include your direct competitors, as well as companies that sell related products and services. Observe how customers are treated in addition to the kinds of services that seem to be important to them. Then adapt your business accordingly.

Going above and beyond is especially important when a customer has complained or if there is a problem with a purchase. Suppose an order is delayed. What can you do?

- Call the customer personally with updates on the status of the order and expected arrival time.
- Hand-deliver the merchandise when it arrives.
- Take 20 or 30 percent off the cost.
- Send a note apologizing for the delay . . . tucked inside a gift basket full of goodies. These are all ways of showing the customer you’re on his side.

Going above and beyond doesn’t always mean offering deep discounts or giving away products. With a little ingenuity and effort, you can show customers they are important at any time. Suppose you’ve just received the newest samples and colors for your home furnishings line. Why not invite your best customers to a private showing, complete with music, appetizers and a coupon good for one free hour of consultation?

Emergency orders and last-minute changes should be accommodated when possible, especially for important occasions such as a wedding or a big trade show. Customers remember these events . . . and they will remember your flexibility and prompt response to their needs, too.
Being accessible also wins loyalty. One entrepreneur who runs a computer chip company has installed a customer service line on every employee’s telephone, from the mail room clerk on up. This means every caller gets through to a real person who can help him or her, instead of getting lost in a voice-mail maze.

Customer loyalty is hard to win and easy to lose. But by going above and beyond with your customer service, you’ll soon see your sales going above and beyond those of your competitors.
Net Sales
*Online Advertising and Marketing*

Social Studies
*Social Media Marketing*

Can You Relate?
*Social Media Networking*
Your website is up and you have promoted it on everything from business cards to T-shirts. Your shopping cart program is primed for action. There’s only one problem—nobody shows up.

The net is littered with tens of thousands of dead sites, abandoned because no one visited. You can always tell a dead site—it was last updated on its launch date. So how can you make yours successful?

Throw some money at it—judiciously. “It’s a good idea to stick with low-cost, grass-roots techniques,” says Jim Daniels, president of JDD Publishing in Smithfield, Rhode Island. Daniels has written several books about internet marketing and publishes the Bizweb eGazette newsletter, which has more than 150,000 subscribers worldwide and is accessible at bizweb2000.com.
Also, if you can afford one, hire a PR firm. In general, raising your firm’s visibility through media exposure lets you talk about your website to a broad range of potential customers.

A Marketing Tool

Think of your website as a marketing tool like the others you use to promote your business. Because its return is hard to gauge, your job is to learn how to get the most from the web. “Why would someone want to visit my site?” That’s your key question. If your site talks only about your company and how great you are, chances are, no one will come back. Attracting visitors requires magnets: things that excite people and make them return for more.

Savvy marketers master permission marketing, which provides incentives for customers to learn more about your product or service. Let’s say you run the Clicks and Bricks Bed and Breakfast in Vermont. Spring and fall are your off-seasons. You’d like to reach out to former visitors and those who have sent e-mails inquiring about the Clicks and Bricks B&B.

Using the principles of permission marketing, you can:

- Use your database of customer and prospect e-mails to build an audience for a promotional campaign.
- Recognize that those consumers have indicated a willingness to talk to you. So find something to say to them. You could offer them a “three nights for the price of two” promotion or run a contest for a free two-night midweek stay. It’s offers like these that keep customers and prospects engaged.
- Encourage a learning relationship with your customers. Send e-mails or print brochures about upcoming local events such as the annual Fuzzy Worm Festival, or offer two-for-one coupons for an upcoming art show. Remind them of Vermont’s allure in the spring and fall.
- Deepen your communication as site visitors become customers and first-timers become return visitors. Send birthday or anniversary cards. Reward them with a glossy national B&B directory. Show them that you value their patronage.

**Attracting Visitors to Your Site**

The number of websites is well over the million mark and crossing into the billions. According to the 2009 *Domain Name Industry Brief*, published by VeriSign, the internet boasted more than 183 million domain names, over 25 billion pages, and well over 109 million websites. With millions of websites out there, getting visitors to your individual site is often the biggest challenge. Your strategies for doing so may include search engines, paid search services and affiliates. Let’s consider them one at a time.

**Search Engines**

Search engines have become a ubiquitous part of American culture. Every day millions of Americans go online to search the internet or “Google” something or someone. According to a 2009 report from the Pew Internet & American Life project—which produces reports that explore the impact of the internet—74 percent of American adults use the internet, 88 percent use search engines, and 81 percent look online for information about a service or product they’re thinking of buying.
Perhaps the most important—and inexpensive—strategy in getting people to your website is to rank high for your preferred keywords on the main search engines in “organic” or “natural” searches (as opposed to paid ads, also known as “sponsored links,” which are often found on the right side of search pages or clearly marked as a “sponsored link”). In general, achieving a high rank is based on three criteria: competition, relevancy and content.

Think of “competition” like popularity. The more popular (talked about, linked to and clicked on) your offer or website is, the more competitive you are. “Relevancy” is based on how well your offer or site matches the keywords. Your site should include the keyword, or be as close as possible to the keyword that’s being searched. Finally, your “content” should address the question being asked. Your goal is to answer the query as directly as possible. You want the end user to say “Yes, this is the answer I’m looking for.” The sooner you master these three criteria, the higher rank you’ll be able to achieve in search results.

Mastering the art of search is not impossible; it just takes practice and time. Take the time to think about what your potential customers are really asking and how your offer or website answers their questions. Be persistent and consistent, work through the learning curve, and you’ll find yourself with a high rank in the search engines.

Search engine marketing (SEM) is also a rapidly growing and profitable segment of the internet. According to a 2008 study from Search Engine Marketing Professionals Organization, conducted in partnership with Radar Research, SEM expenditures will reach $26 billion in 2013, which is close to 10 percent of total U.S. advertising spending.

Adding widgets to your website and staying active on social sites, such as Facebook, LinkedIn and Twitter, helps increase organic SEO rankings. What’s a widget? It’s a live stream of updates from your social sites that feed directly into your website. For more information on embedding widgets, type in “widgets” in the search box on each social site.
projected for 2013. Increasingly, ad budgets are being shifted away from offline marketing, such as print, direct mail and TV advertising, and directed toward online marketing.

While there are many search engines out there, and they all differ in structure, search strategy and efficiency. According to a recent report from online internet research firm Hitwise, most searches take place on the following sites:

- Google-owned sites, such as Google.com or Google Image Search
- Yahoo!-owned sites, including Yahoo.com, AltaVista.com and AllTheWeb.com
- MSN-operated sites, such as Bing.com, which is Bing and Yahoo’s merged search engine
- IAC-owned sites, such as Ask.com
- Time Warner-owned sites, such as AOL Search

For the best exposure, be sure your website is listed on most of these sites. To use search engines effectively to draw visitors to your site, the keywords you choose in your domain name, title tag and the text of your main page can spell the difference in your search engine rankings. Keyword-rich domain names, title tags and main pages boost traffic. And when using keywords, remember it’s important to have them appear naturally.

The easiest way to get ranked on search engines is to submit your domain name to various search engines. Maximizing the number of times your URL comes up in a search result is an ongoing process. It takes patience to monitor the search engines by visiting them frequently and studying your log files to see which search engines send you the most traffic. If you need to make changes in your website,
particularly your opening page, to move up in the search engine rankings, do so.

With so many search engines out there, you might also use a web tool like the one at TrafficBoost.com to submit your website address to more than 500 search engines for a modest fee for one-time submission, slightly more for an initial hit and three quarterly updates. Also check out SelfPromotion.com, a free resource for do-it-yourself web promotion. Here you can find information and tips about search engine submission, along with automatic submission tools that help you submit your URL to all the major search engines. Once listed, you can use free online tools, including:

- **SiteRankChecker.com.** Gives you an overview of where you rank on top search engines
- **SiteReportCard.com.** Compares your site with your competition
- **LinkPopularity.com.** Lists all sites that have linked back to your domain name

If you get good results with AOL Search using one set of keywords and do well with Google using another set of keywords, that’s fine. Also keep in mind that the narrower the category, the better your chance of scoring hits; for example, “percussion instruments” and “ice skating dresses” are more specific than “drums” and “sports attire” and have a better chance of scoring hits.

**Paid Search Services**

Many companies are also using paid search services as a supplement to SEM. These services basically allow you to pay to have your website be part of the results of a user’s query on a search engine site. There are three types of paid search services: paid submission, pay-for-inclusion and pay-for-placement.

In *paid submission*, you can submit your website for review by a search service for a preset fee with the expectation that the site will be accepted and included in that company’s search engine—provided it meets the stated guidelines for submission. Yahoo! is the major search
engine that accepts this type of submission. While paid submissions guarantee a timely review of the submitted site and notice of acceptance or rejection, you’re not guaranteed inclusion or a particular placement order in the listings. Yahoo! charges $299 for this service, which it calls Yahoo! Directory Submit.

*Paid inclusion* programs allow you to submit your website for guaranteed inclusion in a search engine’s database of listings for a set period of time. While paid inclusion guarantees indexing of submitted pages or sites in a search database, you’re not guaranteed that the pages will rank well for particular queries. Of the major search engines, only Yahoo! does paid inclusion.

In *pay-for-placement*, you can guarantee a ranking in a search listing for the terms of your choice. Also known as paid placement, paid listings or sponsored listings, this program guarantees placement in search results. The leaders in pay-for-placement are Google, Yahoo! Search Marketing and Bing Search. These programs allow you to bid on the terms you wish to appear for; you then agree to pay a certain amount each time someone clicks on your listing. Costs for pay-for-placement start at around a nickel a click and go up considerably based on how high you want your site to appear—and competition for keywords has the biggest bearing on that. For example, a bid on “web hosting” will result in payment of a few bucks a click if you want to get on the first page of results. But if you’re promoting, say, lighthouse tours, you may be able to get on top paying just a dime a click.

In the Google AdWords program, Google sells paid listings that appear above and to the side of its regular results, as well as on its partner sites. Since it may take time for a new site to appear within Google, these advertising opportunities offer a fast way to get listed with the service.

In the Google AdWords program, the cost of your campaigns really depends on how much you’re willing to pay and how well you know
your audience. It all boils down to knowing your own goals and letting Google know what they are. There’s a nominal one-time $5 activation fee for Google AdWords. After that, Google will grant the highest position to the advertiser with the highest bid for keywords and the highest click-through rate.

The Bing Search, known as Microsoft adCenter, doesn’t charge you to create an account; you only pay when someone clicks on your ad. The highest position is given to the advertiser with the highest bid for keywords and the highest click-through rate.

Yahoo Sponsored Search allows you to bid on the keywords for which you wish to appear and then pay a certain amount each time someone clicks on your listings. For example, if you wanted to appear in the top listings for “clocks,” you might agree to pay a maximum of 25 cents per click. If no one agrees to pay more than this, then you would be in the No. 1 spot. If someone later decides to pay 26 cents, then you fall into the No. 2 position. You could then bid 27 cents and move back on top if you wanted to. In other words, the highest bid gets the highest position on Yahoo’s Sponsored Search.

Yahoo Sponsored Search displays its listings on its own search results, in addition to InfoSpace and many other partner sites.

To get started, set up an account through a self-service channel or through a service called Fast Track, which has a one-time service fee of $199 and includes a custom proposal with suggested keywords, bidding recommendations and more. Yahoo’s minimum bid requirement is 10 cents. By carefully selecting targeted terms, you can stretch that money for one or two months and get quality traffic.

Another paid search program to check out is from Miva Inc. (miva.com), which is a major search player.
Local Search

Want local customers to find you? Then try local search engine advertising, which lets you target ads to a specific state, city or even neighborhood. A growing number of small businesses are using local search. New research released in 2009, from a joint survey conducted by Nielsen Online and Webvisible, found that the majority of small-business owners use the internet to search for local services, while 82 percent of consumers and small businesses use search engines first to find information online compared with 52 percent who turn to Yellow Pages online as their primary search tool.

Like other search engine advertising, the local variety lets you track your account closely to find out which keywords are most successful at drawing customers and how much you’re spending each day.

As you can imagine, the major search engine companies offer local search options. To sign up with Yahoo! Search Marketing, for example, go to: searchmarketing.yahoo.com/local. To sign up with Google, go to adwords.google.com/select, and to sign up with MSN, go to advertising.microsoft.com/home. In general, all of the programs follow a pay-per-click model.

Affiliates

Firms that sell products and services on their websites for commissions offer another way to draw site visitors. The web is democratic; a SOHO (small office home office) can be an affiliate of a Fortune 500

TIP
If you’re willing to experiment with mobile advertising, you can use either paid search engines or display mobile advertising companies, such as AdMob, Smaato, Ad Infuse, InMobi, Mojiva, BrandPort or Rapid Mobile. Google AdWords has allowed marketers to select “mobile” as one of its ad distribution channels for some time. If you’re not sure if your mobile setting is on or off, log into your AdWords account and check your campaign settings.
firm, as can other corporate giants, midsized businesses and even charities.

Affiliates place merchant promotions on their websites to sell goods or services. They control the type of promotion, location on the site, and the length of time it runs. In return, the affiliate earns commission on click-throughs, leads or purchases made through the site. For example, your town’s Big Bank is the affiliate looking for local merchants to advertise on its site. It has a restaurant, an office supply store, a realtor, a law firm and an accounting firm with ads or promotions on its site. Depending on what they negotiated with Big Bank, they’ll receive commissions on sales that initiated from their website. For every click-through that results in a sale, you’ll earn a commission, anywhere from 1 to 10 percent for multichannel retailers, or 30 to 50 percent in the software sector.

You may want to consider joining an affiliate program network, which provides all the tools and services affiliates and merchants need to create, manage and optimize successful affiliate marketing programs. Sites that offer quality programs include LinkShare.com (linkshare.com), which offers deals with Dell Computer, 1-800-Flowers.com Inc., Foot Locker, and Commission Junction, a Value Click company (cj.com). Crave more obscure programs for your site? You’ll find them at ClicksLink (clickslink.com), which provides a searchable directory plus tools for signing up with everything from astrology vendors to watchmakers. If you’re an affiliate, you can join these networks for free.

Another route is using your favorite search engines to find companies that have potential as affiliates. For example, if you own a gym and sell workout products, you might want to affiliate partner with nutritionists, personal trainers, sports drinks, and vitamin and health-food partners.
The Direct Marketing Association offers some practical advice on how to be more successful at reaching current and potential customers through e-mail:

- Encourage customers and prospects to add your e-mail address to their personal “approved list/address book.” Being an “approved” sender yields higher response rates and generates fewer complaints and blocking issues.

- Carefully consider the content and presentation of your marketing messages because recipients are increasingly labeling any e-mail communication that’s not relevant or looks suspicious as spam.

- Click the “spam check” button in your e-mail program to see if your e-mail is at risk for being marked as spam. A growing number of ISPs use spam-filtering software. This technology uses algorithms to determine whether incoming messages qualify as junk e-mail and filters them out before they get to a client’s inbox. In addition, you should register for all mailbox provider feedback loops. In general, aim to keep complaint rates (total complaints divided by total delivered e-mail) below 0.1 percent to avoid temporary or long-term blocks.

- Adopt good list-hygiene and list-monitoring practices that help facilitate message delivery. Monitoring campaign delivery and open and click-through rates is essential because low open rates or high bounce-back rates may indicate a delivery problem.

If you decide to run your own affiliate programs, Infusionsoft (infusionsoft.com) offers a complete e-mail marketing system and everything you’ll need to run a successful affiliate program.
Keeping Visitors at Your Site

A good website design and strategy for attracting visitors takes you three-quarters of the way to success. The final step is getting people to try your offerings and to come back for more. The best way to do that is to treat each customer as unique. Fortunately, the web lends itself to the kind of personalization that’s relatively easy and inexpensive for even the smallest business.

With a little effort, you can address each site visitor’s needs effectively. Combined with offline strategic work—such as hitting customers every other week with a free newsletter or offering them a two-for-one special if they haven’t visited your site in two months, readily available e-commerce tools enable you to personalize as nothing else can.

The basis for customization is the cookie—a morsel of information that lets sites know where customers go. A cookie is a piece of data that’s sent to the browser along with an HTML page when someone visits a site. The browser saves the cookie to the visitor’s hard drive. When that customer revisits the site, the cookie goes back to the web server along with his new request, enabling your site to recognize the return visitor.

Here are some ideas for marketing programs you can create from an analysis of stored cookies and e-mail:

- Send a postcard to customers who haven’t bought anything online in three months, offering a $10 or $20 reward for shopping online.

Jim Daniels of JDD Publishing advises teaming up with other sites in your niche by forming joint ventures. Search for sites that serve a similar customer base, and get their mailing addresses. Then mail them a letter offering to send them your best product or service at no charge so they can try it out. If they like it, you’ll pay them a commission if they’ll recommend it to their site visitors and newsletter subscribers. If you found them easily on the web, chances are, they have lots of website traffic.
Send an e-mail with a new promotion a few weeks or months after a customer makes a purchase.

Offer a chance to win something and make it easy for visitors who drop in at least once a week to enter the contest.

If personalization seems too complicated, you can still design your website to speak to different groups of people. Let’s say you’re a realtor wanting your site to meet several needs. Create a screen with button bars like these:

- If you’re a buyer, click here.
- If you’re thinking of listing your house for sale, click here.
- If you’re a realtor from outside the area, click here.
- If you want to join our team, click here.

This form of customization addresses the needs of different groups. You have made an effort to provide information tailored to each market segment. It doesn’t cost a million dollars yet increases your credibility and efficiency.

Getting visitors to stick around long enough to explore your site is just as important as tempting them to visit in the first place. Here are some tips on capturing your visitors’ attention.

- Make connections. If possible, hyperlink your e-mail address; this means most visitors can simply click to open a blank message and send you a note.
- Have fun. People who surf the internet are looking for fun. You don’t have to be wild and wacky (unless you want to). Just make sure you offer original content presented in an entertaining way.
- Add value. Offering something useful that customers can do adds tremendous value to your site. For example, customers can track their own packages at the FedEx site or concoct a recipe for a new drink at the Stolichnaya vodka site. While it doesn’t have to be quite so elaborate, offering users the ability to download forms, play games or create something useful or fun will keep them coming back.
Keep it simple. Don’t build a site that’s more than three or four levels deep. Internet users love to surf, but they get bored when they have to sift through loads of information to find what they’re looking for.

Provide a map. Use icons and button bars to create clear navigational paths. A well-designed site should have a button at the bottom of each subpage that transports the visitor back to the site’s homepage.

Stage a contest. Nothing is more compelling than giving something away. Have the contestants fill out a registration form so you can find out who’s coming to your site.

Make payment a snap. If you’re setting up an online storefront, give customers an easy way to pay you. Consider including an online order form, toll-free ordering number or fax line.

The Ad-Free Zone

When you design your website’s marketing plan, remember that the internet is a community with its own set of rules that you as an entrepreneur must understand to be successful. The primary rule is: Don’t send spam.

Not only is it annoying to recipients, it is also illegal. In 2004, Controlling the Assault of Non-Solicited Pornography and Marketing Act (or Can-Spam Act of 2003) was signed into law. The law requires commercial e-mail messages to be labeled and to include opt-out instructions as well as the sender’s physical address. It also prohibits the use of deceptive subject lines and false headers. A good way to get folks to opt in to your e-mail list—which of course they’ll have the option of opting out of—is to offer a free monthly e-mail newsletter.
Content is wide open, but effective newsletters usually mix news about trends in your field with tips and updates on sales or special pricing. Whatever you do, keep it short. Six hundred words is probably the maximum length. Another key: Include hyperlinks so that interested readers can, with a single mouse click, go directly to your site and find out more about a topic of interest.

Another tip to keep in mind: Don’t post commercial messages to newsgroups that have rules against these types of messages. For example, on the social networking site LinkedIn, don’t post massive messages that sound like sales pitches to any of the groups. However, if you’re offering valuable content and resources or if you’re looking to start a discussion on a topic, then by all means post away.
What’s all the buzz about social media and, more important, why should you be listening? Social media has become a tool to connect and engage with your audience—and in today’s marketing landscape, that’s how brands are built.

Social media marketing is simply using social sites, such as Facebook, LinkedIn and YouTube, to market your business. This new marketing medium is more demanding on businesses because to promote and build a brand, you must engage in conversations with your target market.

The Social Media Marketing Industry Report, by social media researcher Michael Stelzner with WhitePaperSource.com, the online source for writing and marketing white papers, confirms that 81 percent of businesses using social media marketing indicated that their efforts have generated significant exposure
for their brand. Improving traffic and growing lists was the second major benefit listed, followed by building new partnerships. The number-one benefit of social media marketing was gaining those all-important eyeballs; an unexpected benefit was a rise in search engine rankings reported by more than half the participants in the study.

Engaging Online Tools

There are hundreds of engagement tools on the internet that can help you not only start and conduct conversations with your brand’s audience but also monitor and deepen them. One of the most powerful is blogging. Blogging is derived from the word “web log,” and it’s a type of website that’s usually maintained by an individual who regularly enters commentary, descriptions of events, or other material, such as graphics or video.

Websites can become static and dated, in addition to not being interactive, which means you’re not engaging or talking with your customers or clients. Putting a blog on your website allows you to engage in a two-way conversation with your market. To start the conversation, you can post valuable tips, content, discussions, resources, thoughts and reviews on your blog.

Blogging, which dates to the early ’90s, gained popularity in the beginning of 2000 and today is one of the most powerful interactive tools on the net. Whether you already have a blog or you need to set one up, there’s one thing you need to do . . . become active on it. The key to building readers and followers for your blog is to be active and post valuable and compelling information on a regular basis. Serious bloggers post and market their blogs on social sites daily. Although this
is a powerful and effective way to build readers and followers, daily posting isn’t necessary to grow your blog. All you need to do is allocate posting time that fits within your marketing schedule—and stick to it. Consistency is key when you launch and operate a blog. Your readers will begin to expect and look forward to your posts.

The first thing you need to do is find a blog platform. A blog platform is a site that allows you to set up, design and even host your blog. Most are free, although some offer upgrade capabilities and options.

A few top blog platforms include:

- **WordPress**: wordpress.com
- **Tumblr**: tumblr.com/
- **Blogger**: blogger.com/start
- **TypePad**: typepad.com

### Video Marketing

Just as marketing has evolved, so has the internet. What started as static text-heavy sites are now evolving into interactive and informative video pages. “Videos are by far the best lead-generation tool on the net,” according to founder and CEO Mike Koenigs of TrafficGeyser.com, a website traffic generator. “Videos are often misunderstood: Most people think that they need to invest in a big production of storyboards and high-end video equipment to make quality viral videos; however, the opposite is true. The more fun, humorous and engaging they are, the more likely they will become viral.”

Sixty percent of all web traffic is video, and according to YouTube, the average video viewed on the site is 27 minutes, which is surprising when the general marketing rule has been no more than two-minute clips, or you’ll lose them. Furthermore, YouTube reports that over 30 billion videos are watched in the United States every month. Another
The reason why videos are so powerful in marketing is the fact that they connect with the consumer’s three vital learning gateways—the auditory, visual and kinesthetic.

One of the quickest, most affordable ways to create a video is to use a Flipcam and record short videos for your target market. They don’t have to be fancy; they just have to be fun and informative. A quick and easy way to launch a video campaign and make it viral is to do short video clips two to three minutes in length that are frequently asked and answered questions from your customers. The complete video marketing formula can be found on TrafficGeyser’s blog at trafficgeyser.com/blog. It’s called “The 10x10x4 Market Domination Formula.”

### Overview of Social Bookmarking Sites

Traffic from social bookmarking sites can give your site a huge boost in traffic, delivering thousands of visitors in just a few hours. While the initial effects can be temporary, if you give people a reason to come back to your website, you’ll certainly notice a positive cumulative effect. We’ll cover how to do this in the “Content Marketing Online” starting on page 624.

What is social bookmarking, how does it work, how can you get people to bookmark you and what can you expect? A social bookmarking service is a website that allows members to add page links as bookmarks, categorize those links, and provide added commentary. These bookmarks are then made available to the other community members, who are also generally allowed to make their own comments on the bookmarked page.

The service that kicked off the social bookmarking craze in 2003 was Del.icio.us. Since that time, hundreds of other social bookmarking services have been launched, with the most popular being Google Bookmarks, Digg, Reddit and StumbleUpon. All these services have the
ability to deliver hundreds or thousands of targeted visitors to your site within a very short time; sometimes within hours of your page having been bookmarked if the wider community finds the entry of interest.

Make it easy for site visitors to bookmark you by using a service called AddThis, which offers a free one-step click-and-add button for bookmarking sites. Site visitors simply click on the “Bookmark” icon on your site, and choose which of their social networks to post your content to, from Twitter and Facebook to LinkedIn and StumbleUpon.

AddThis keeps the list of bookmarking options current; plus, the service provides you with stats, such as tracking how your users are sharing your content. When you install AddThis, you’ll begin to receive analytics once your visitors start sharing your content. After you begin to receive analytics information, you can use filters to refine your data by domain, time period and other options. AddThis offers several different analytics reports to help you understand how visitors are sharing your content. These reports include information about popular content, services usage (such as Facebook, Twitter, etc.), and geographic summaries. Your analytics data can even be integrated into your Google Analytics reports.

Another must-have on your site is ShareThis, a little, green button found at ShareThis.com. This is another icon that makes it easy to share ideas, articles and content online. It’s a great tool to increase traffic and engagement, and with one click of this green button visitors can share your content with all their online networks.

**Ning Communities**

Ning, which means peace in Chinese, is an online platform for people to create their own social networks. Ning allows for deep social experiences around brands and topics. According to Tech Crunch, a weblog dedicated to obsessively profiling and reviewing You can search current Ning site topics in their directory at jensocial.com. A great example of a Ning site specific to social media is InSocialMedia.com.
new internet products and companies, there are 41 million registered users on Ning, and 92 million people a month worldwide visit Ning sites. Anyone can easily create a Ning social network, and most Ning platforms are free; however, upgrade options are available.

**Content Marketing Online**

Article marketing is a type of content marketing in which businesses write short articles related to their respective industries. These articles are made available for distribution and publication in the marketplace. Each article contains a bio box and byline that includes references and contact information for the author’s business. Well-written content articles released for free distribution have the potential of increasing the business’s credibility within its market as well as attracting new clients.

If writing is not your forte and you’re worried about creating powerful articles or content, there are hundreds of sites that offer writing services, such as WritersForHire.com, where you can set a budget for a project and post the job for hire. Another great resource for writers is right in your hometown at the local university or college. Interns are starving for more experience and would jump at the opportunity to write articles for credit. You can post writing jobs in the college career center, or call on the intern division in the marketing department.

Before you submit your articles online, make sure you read submission guidelines to ensure timely approval and posting. There are hundreds of article marketing sites on the net. Here are a few top sites:

- **businessknowhow.com.** If your content can help businesses grow, then this is a great site to submit articles and tips to. Business Know-How is known for providing practical information, tools and resources for starting, growing and managing small and homebased businesses. The Business Know-How website reaches about 3 million individuals each year.
- **Ezinearticles.com.** This is a matching service that brings real-world experts and ezine publishers together. Experts, authors and writers are able to post their articles on this member site.
The site’s searchable database of hundreds of thousands of quality original articles allows e-mail newsletter publishers that need fresh content to find articles that they can use for inclusion in their next newsletter or blog post.

- **Goarticles.com.** With a membership exceeding 135,000 authors, this article search engine and directory boasts more than 1 million indexed articles. The site receives more than 10,000 article submissions weekly. Their goal is to provide authors, publishers and visitors with the best and largest free content article database on the web.

- **articlealley.com.** This free article directory was started to help authors promote and syndicate their content. This site allows authors and promoters to get their articles out with the potential of being read by millions. They now have a loyal author base of more than 90,000 active authors and more than half a million pages of content.

Once you’ve posted your content on the article publishing sites, you’ll want to track their success. If you posted your content on EzineArticles.com, you can get a fairly good idea how many people are republishing your articles in newsletters or other nonwebsite sources. On each article, there’s a quick-publish button that spits out an HTML-formatted version of the article, allowing publishers to copy and paste the content into a website or e-mail. Authors are provided with statistics on how many times the button is clicked as well as how many times the article has been viewed, forwarded by e-mail and a few other neat statistics. Total views (page views) are also included in the statistic. Top authors report figures in the hundreds of thousands; however, they’re publishing over 100 articles per month. You get back multiples of what you put in, and depending on keywords, titles and subject matter you can expect varying results.
Here are a few quick tips on how to take an article and make it viral on the net:

- **Post on discussion boards and forums.** Post snippets of your article or the article title in forums and on discussion boards that are related to your target market or topic focus. Don't forget to include your full name and website or blog URL where the article is located.

- **Compile articles into an e-book.** Compile the articles into an e-book. For example, if you own a gym and want to get more people in to work out, offer an e-book on the top ten ways to motivate yourself to get to the gym. Take these e-books and distribute them either through your website, to your e-mail list or via safelists. Give your readers the right to distribute them as well. This is viral marketing at work. If your e-book is for sale, offer to share revenue if readers distribute it to their list and sell it. This is called an affiliate marketing program.

- **Write a variety of articles.** The trick to reaching a massive amount of people is to create a variety of articles. For example, if you want to promote your public relations service, you could post content on how to write an article, how to come up with attractive article titles, what's the right format and ideal word count, how and where to distribute the articles, how to submit to hundreds of article directories within the shortest time, etc.

- **Add a disclosure in each article at the end or bottom of the article.** Your disclosure statement should say something like this: “This article may be freely reprinted or distributed in its entirety in any ezine, newsletter, blog or website. The author’s name, bio and website links must remain intact and be included with every reproduction.”
Another great analytics tool you can use to track where visitors are coming from, what article pages they visit on your site, and how long they stay is Google Analytics. It's a free service and fairly simple to set up. Go to google.com/analytics to set up an account. The analytics site offers a complete tutorial; however, if you’re still unsure how to use it, you can ask a web programmer to set it up for you in a matter of minutes.

**Social Marketing Automation**

With all the social site tools available, often the best way to be effective with your social marketing is to automate the process. First, you need to decide whether automation is right for you and, if so, which automation you should set up. Automation can be key in turning your contacts into profits because you can post less, but at the same time, you get more exposure. Social automation, however, can be considered spamming, so be careful with how you set it up.

How does social network automation work? There are tools like ping.fm where you can automate your social networking sites or tube mogul.com to automate your video posting. These sites can submit a link or post to not just one or two sites but, in some cases, up to 60. Sometimes, though, the link posted isn’t relevant for the site it goes out to. In other words, the links aren’t even relevant for the members of the network, and sometimes they’re not properly tagged or categorized. This eventually leads to negative votes on the article or post submitted, so make sure you set up your automation properly.

There are many automation capabilities and options available. Here are some automation suggestions to get you started:

- **Twitter to Facebook.** Every time you post on Twitter, it will automatically post to your personal Facebook newsfeed.
- **Facebook Fan Page to Twitter.** Every time you post to your Facebook fan page, it can post to Twitter, which will, in turn, post to your personal Facebook newsfeed.
- **Link your blog to Facebook.** Click on the NetworkedBlogs application in Facebook (apps.facebook.com/blognetworks), and add
your blog information as prompted. There’s a verification process that Facebook will walk you through to make sure you’re the author of the blog.

- **Link your blog to LinkedIn.** Go to Applications and click on WordPress if you have a WordPress blog, or go to Applications then Blog Link if you have a TypePad blog. LinkedIn will walk you through the process step by step.

- **Link your blog to Twitter.** Twitterfeed (twitterfeed.com) is a handy, free website and application that will “feed your blog to Twitter.” Go to Twitterfeed, sign up for an account, verify and log in, then click “Create New Feed” button, and add your blog. It might take a couple of hours to start working. Once going, it’s fairly reliable unless Twitter goes down or has API issues. Check the stream once a week.

One of the best ways to automate your blog so it posts to the social sites you’re active on is to set up widgets and add plugins. You can do this for sites like Twitter, Facebook, LinkedIn, YouTube, Squidoo, Delicious, Digg and many more. The way a widget works is every time you post on one social site it will go out to your blog as an update. First, you need to make sure your blog allows widgets. Some blogs won’t allow widgets unless you host the blog on your own site. Once you determine whether you can add these widgets, log in to each of the sites you want to add a widget to and go to the search box, type in widget, and that will take you to the most current directions on how to upload or generate the HTML code needed to post widgets to your blog.

Plugins are applications that can enhance the capabilities of your blog, such as the All in One SEO plugins available on WordPress, which helps you optimize your blog for search engines, or the WPtouch iPhone Theme on WordPress that transforms your WordPress blog into an iPhone application-style theme. There are thousands of plugins available, and they’re usually found on your blog platform under plugging.
The days of in-person networking are quickly being overpowered by connecting on the internet. In the past five years, connecting on social networking sites has rocketed from a niche activity into a phenomenon that engages tens of millions of internet users.

According to Nielsen Online, a global research company, “member communities” are now visited by more than two-thirds (67 percent) of the global online population, which includes both social networks and blogs. It has become the fourth most popular online category—ahead of personal e-mail—and it’s growing twice as fast as any of the other four largest sectors (search, portals, PC software and e-mail).

Throughout this social movement, this new approach to networking has continued to be overlooked as a marketing vehicle for business owners. Now, instead of connecting at an in-person event, you can
reach hundreds, even thousands, of potential customers online. Social networking can help you reach new markets and enhance your customer service.

**High-Level Networking**

In today’s networking space, you need to be efficient with your time and even more effective in regard to whom you choose to connect with. It’s important to know how to choose whom to connect with online. There are two different types of networkers online—the posters and the seekers. Your business is a poster, which means you actively post valuable information, resources, tips and offers. The seekers are your customers—they’re actively seeking your products and or services. You’ll find seekers in discussion areas, forums, groups and engaging on fan pages.

When searching for quality contacts to network with online, start with connection sites, such as LinkedIn or Xing, and look for high-level networkers (HLN). You’ll know an HLN when you see one; they’re active online, have at least 500 connections, and have powerful profiles, which means that their profiles are set up completely. Make sure these contacts have at least one of the three criteria before you connect with them online. Some examples of HLNs would be decision makers, executives, the media and the movers and shakers in your industry. Don’t let the fact that you don’t yet know the person hold you back from sending an invite to connect. Simply be transparent, and let them know why you’d like to connect with them online. Whether you’re offering your help, sending them a resource, or introducing them to one of your connections, make sure that you make it about how you can help them and not how they can help you.
Target Market Connections

Target market connections (TMC) are a group of consumers at which your company aims its products and services. They’re found by using keywords in the search section on social sites as well as in groups and discussion areas in your area of interest or focus. TMCs are mostly seekers that chat and seek out information by posting questions online. In the most basic terms, they’re seeking you. The key is to join in the groups and discussions where your target market is talking and engage with them. You can also send them an invite to connect and let them know that you sent them the invite because you have similar interests and you’re looking to expand your professional network.

Another way to find your target market online is to investigate competitors’ marketing methods. See where another business that offers the same or similar products and services advertises their links and posts on social sites. Be sure each location makes sense and has a large contingent of people in your targeted market. Searching in your field will often turn up places where your audience goes when they’re looking for something in your industry.

The top three social sites to get started with or choose from are LinkedIn, Facebook and Twitter. These sites are massive online communities filled with potential high-level networkers and target market connections. To get started, set up your profile and navigate to get familiar with the sites’ offerings. To stay informed on any social site changes or updates, be sure to bookmark mashable.com, the leading source for all social networking news and updates.

If someone is looking for house cleaning services in Orlando, Florida, you should know what he or she is likely to type into the search engine. You can find out this information by researching how people search. Good Keywords (goodkey words.com) offers some great keyword-related software for brainstorming, researching, analyzing and managing keywords. Free trials are available.
Groups and Discussions

Even the most unsociable entrepreneur can interact on message boards and blogs. Groups and discussion areas on social sites are all over the internet from LinkedIn and Xing to Twitter and Facebook. Most social networking sites have community areas for people who have similar interests to gather and connect. It’s important to find a dozen or so of these groups and discussion areas and not only join and monitor them but engage in the conversations as well.

Blogs are another type of discussion forum on the internet. A blog isn’t just a type of website; it’s quickly becoming a place to interact with your target market. Technorati (technorati.com), a site focused on helping people find great blogs and content specific to their industry or topic, was recently ranked as the fifth largest social media site by comScore, an internet market research company. Technorati manages a list of the top 100 blogs, which is a great place to find the world’s most popular blogs on subjects you’re interested in. Not only can you find connections and blogs on this site, but you can also list your own blog so that people can search and find you.

Blogs are a great way to find HLNs to connect with online as well as partner with. For example, if you’re a restaurant, you could connect with food and review writers, vendors that are blogging or food enthusiasts and share their posts and content on your site or blog. This not only builds relationships but can expose you to their markets, followers and fans.

Fan Pages

With any social media platform, you need to be creative and find ways to provide value and engage your target market. One of the best ways to accomplish this and position yourself as an industry leader is to build
and launch a Facebook fan page. If you’re an entrepreneur, you can’t afford to ignore this powerful tool. Fans are enthusiastic, and if they like what they see and read, they’ll connect with you, become loyal supporters, and tell their friends. This is how word-of-mouth will grow.

It’s very simple to set up a fan page on Facebook—just a few clicks and you’re ready to go. You can either create a fan page from your homepage on the Facebook site or there are tutorials available in the help section on the site. Once you get your fan page up and running, pay attention to your analytics, or what Facebook calls “Insights.” You can view specific demographic information, such as where your fans are from, their gender and their age. Monitor who’s becoming your fan, how they’re interacting, and how often they’re posting. This will help you figure out who and where else you should be targeting online.

To enhance the look and brand image of your fan page, use a vertical image that covers most of the left sidebar. You can also set your fan page to have a vanity URL, which is a personalized web name. There might be a minimum fan requirement before you can do this. This will take your fan page URL from facebook.com/#/pages/brandnamehere/180746308742 to facebook.com/brandnamehere.

One of the main differences between a Facebook profile and a fan page is you can send bulk messages to all your fans. You can also “Suggest to Friends” that they join you on your fan page. Obviously, this is a feature you need to use wisely, and be careful not to annoy your audience. But it’s a great way to connect with your target market, especially since these are connections that have opted-in to become a part of your community. They want to hear from you and talk with you.

After you have your fan page published live, you can use the little ads you see in the margins on your profile page to increase

Be aware of “trolling” (aka trolls) on the net: A troll is someone who posts inflammatory or off-topic messages in an online community, such as a discussion forum, in a group or blog, with the primary intent of provoking other users into an emotional response or of otherwise disrupting normal on-topic discussion.
your fan base, mostly to kick it off at the beginning. Facebook advertising is very affordable, you can set up campaigns of any size and on any budget, and they’re highly targeted. People usually assume that advertising is expensive, but don’t let that scare you. Give it a try.

FAN PAGE WORKOUT

Social media news site mashable.com suggests the following tips to enhance and build out your fan page:

■ **Twitter integration.** Link your fan page to Twitter so every time you post, it will automatically be posted to your Twitter account as well. (For more on automating your content, see Chapter 35.)

■ **Fan page blog widget.** Add a fan page widget to your blog to help drive blog traffic and connections to your fan page. Facebook provides you with the necessary code. (For more details on widgets, see Chapter 35.)

■ **Blog promotion.** Take your blog to the next level, and add your blog to the tabs section on your fan page. Blogging networks, such as NetworkedBlogs (networkedblogs.com) or Blogged (blogged.com), allow you to integrate a feed and give your fans a little taste of your blog. At the same time, your blog is now part of a network and that can translate into some additional traffic and followers.

■ **FBML page.** This one requires some coding skills and installation of the FBML application to be able to integrate it, but it’s a great way to turn new visitors into fans. First-time visitors usually land on what is called the Wall on your fan page. Since your Wall only includes your recent posts, the first-time visitor doesn’t learn much of what you’re about. However, by integrating FBML, you can design a more

part 7  ENGAGE
Media Connections on Social Sites

The media is an effective conduit for delivering your messages and story to the people you want to reach and can be vital to gaining word-of-mouth online and off. A majority of journalists have switched to social sites because they don’t have the time to read lengthy e-mail pitches and press releases. With the help of social networking sites, you can search for media contacts on sites such as LinkedIn and reach out to them directly. You can also pitch journalists on blogs and Twitter, and get up-to-date information about a media outlet and what it’s looking for.

Start by identifying the media outlets you want to target, and visit the website for each one to research it thoroughly. Keep your list brief so follow-up is manageable. Once you’ve built your list, search for key contacts at those outlets on LinkedIn. LinkedIn is a great resource for

“A terrible thing happens without publicity . . . nothing!”
—PT Barnum
finding professional journalists and segment producers. With LinkedIn’s new search features, you can dive deeper into user data to find contacts that fit your criteria. For example, you can create a search to find contacts with “reporter” as their professional title within a 50-mile radius of your ZIP code. You can easily narrow each search by limiting other fields or adding a keyword, such as “business” or “features.” LinkedIn also lets you save a certain amount of searches so you can be alerted to new contacts that join LinkedIn matching your criteria.

MEDIA MATTERS

To find media outlets in your industry or topic area, check out the following sites:

■ **ipl2** ([ipl.org/div/news/](http://ipl.org/div/news/)) is a merger of the Internet Public Library and the Librarians’ Internet Index. It includes a list of popular magazines and newspapers organized by their respective subject area or geographic focus. Each listing includes a brief description of the outlet’s coverage area, along with a link to the website.

■ **Yahoo! News and Media Directory** ([dir.yahoo.com/News_and_Media](http://dir.yahoo.com/News_and_Media)). You can search news and media by format (newspaper, magazine, blog etc.) or by subject. This site also lists how many outlets are available under each category.

■ **HARO** ([Help a Reporter Out](http://helpareporter.com)) is a free service that connects journalists with expert sources. Each e-mail (there are three a day) includes reporter queries you can respond to (provided you have a relevant pitch or expert to offer).
Key media contact titles include:

- Editor
- Segment producer
- Journalist
- Assignment desk editor

**Center of Influence List**

One of the fastest ways to build referrals and relationships online through social networking is by reconnecting with past friends and family members or simply by reaching out to the top people in your center of influence that respect and admire you. This could be friends from grammar or high school, college, past co-workers, family members, bestselling authors, media contacts, etc.

eMarketer.com, a digital marketing and media researcher, reports that more than half (53 percent) of internet users have visited websites referred by friends or family members in the previous 30 days. People trust people that they already know, and your friends and family will most likely recommend you if the situation is right. Referrals have always been an extremely powerful way of gaining customers. With the web, trust levels can be very low for new visitors. In this environment, a referral from a trusted source can make all the difference in converting a contact into a customer.

Develop that trusting relationship with people who are well positioned to help you. You must earn their referrals. When you do, your marketing will become supercharged with what’s clearly the best form of advertising—positive word-of-mouth.

**TIP**

Twitter is a great site to meet media contacts from around the world. Once you build a following, try to attend a local tweetup. A tweetup is an event where people who use Twitter come together to meet in person; they’re great for walking away with a lot of contacts and leads. At a tweetup, you meet the people you might only otherwise know virtually, plus the media often attends.
Facebook is one of the best sites to connect with friends and family as well as past co-workers and your online center of influence. Once you’ve determined who these contacts are and connect with them online, you need to not only reach out to them but keep in touch with them. Have you ever had someone you know buy what you sell from a competitor because they just didn’t know you sold it? That means that you’re not at the top of their mind.

**FORGET ME NOT**

It is vital that you create a powerful “stay connected” plan to keep your brand at top of mind with your contacts. Set aside half a day to reach out to your connections at least once every three months by using one of the following approaches:

- Send them an e-mail once a month to announce something new in your business and simply to touch base.
- Phone (or Skype) them to say hello. Ask them how they are first, and keep notes so you have a point of contact for the next call. You can close with an event or big announcement about your company, product or service.
- A personal note works very well for developing this type of relationship. Notes take time, which shows that you value this relationship. SendOutCards.com is a great site that can help you automate card sending—and we’re talking real printed cards, not e-cards.
- Don’t tell them, show them how important they are. If this relationship doesn’t include reciprocity, it will degenerate into a “what’s in it for me” situation that won’t stand the test of time. Send them thank you gifts or online gift cards (a small amount will do just fine) to let them know you’re grateful for them and any referrals that they’ve sent your way.
chapter 37
Keeping Score
The Basics of Bookkeeping

chapter 38
Making a Statement
How to Create Financial Statements

chapter 39
On the Money
Effectively Managing Your Finances

chapter 40
Pay Day
How to Pay Yourself

chapter 41
Tax Talk
What You Need to Know About Your Taxes
So you say you would rather wrestle an alligator with one hand tied behind your back than get bogged down in numbers? Well, you aren’t alone. Many small-business owners would rather focus on making and selling their products than on keeping their books and records in order. However, bookkeeping is just as important as production and marketing. Many a great business idea has failed due to a poor bookkeeping system.

Simply put, a business’s bookkeeping system tracks the money coming in vs. the money going out. And, ultimately, you won’t be able to keep your doors open if you have more dollars going out than coming in.

Aside from every business owner’s inherent desire to stay in business, there are two other key reasons to set up a good bookkeeping system:

1. It is legally required.
2. Bookkeeping records are an excellent business management tool.

Of course, staying out of jail is a good thing. And a good basic accounting system will provide useful financial information that will enable you to run your business proactively rather than reactively when it comes to important financial decisions.

The Bookkeeping Advantage

As a new business owner, you are in an enviable position in setting up a bookkeeping system for your venture. You are not bound to the “we’ve always done it that way” mentality that bogs down many businesses. For your new endeavor, you have the advantage of being able to develop the bookkeeping system that is most compatible with your business type as well as your financial management skills.

While many businesses still operate using a manual (checkbook and receipts) bookkeeping system, it is not a good idea for a new business to use this type of system. It is far more efficient to go with an automated system, and there are now many bookkeeping software packages on the market that won’t break your wallet.

For a financially complex business such as a manufacturing concern, you can buy industry-specific software, but there also are many generic programs available that would suffice for most new businesses (see “It All Adds Up” on page 656).

A good accounting system meets three criteria. First, it is accurate; the numbers must be right. Automation will help ensure accuracy, but it won’t guarantee it. Bookkeeping numbers should be checked and rechecked to maintain accuracy.

“The check is in the mail.” Or so they say—but is it really? If you switch to electronic billing and payment, you’ll always know for sure. Another advantage is a reduction in errors. If you want to start e-billing, you’ll need software and some training. Or you can find a service provider for a one-time setup fee and per-transaction charges.
Second, a good accounting system is relevant. The system provides information that is required and needed. The law requires that certain pieces of financial information be tracked for tax-reporting purposes. Obviously, these items (which compose a basic income statement and balance sheet) must be measured and tracked. However, it’s equally important to include information that you’ll need to run your business successfully.

Third, a good accounting system is user-friendly. It should not require a CPA to operate and interpret. Most of the Windows-based bookkeeping software packages are pretty user-friendly. They include tutorials and help screens that walk you through the programs. Find one with which you are comfortable, even if it doesn’t have some of the bells and whistles of more complicated programs.

**Basic Accounting Principles**

Most businesses typically use one of two basic accounting methods in their bookkeeping systems: cash basis or accrual basis. While most businesses use the accrual basis, the most appropriate method for your company depends on your sales volume, whether or not you sell on credit, and your business structure.

The cash method is the most simple in that the books are kept based on the actual flow of cash in and out of the business. Income is recorded when it is received, and expenses are reported when they are actually paid. The cash method is used by many sole proprietors and businesses with no inventory. From a tax standpoint, it is sometimes advantageous for a new business to use the cash method of accounting. That way, recording income can be put off until the next tax year, while expenses are counted right away.

With the accrual method, income and expenses are recorded as they occur, regardless of whether or not cash has actually changed.
hands. An excellent example is a sale on credit. The sale is entered into the books when the invoice is generated rather than when the cash is collected. Likewise, an expense occurs when materials are ordered or when a workday has been logged in by an employee, not when the check is actually written. The downside of this method is that you pay income taxes on revenue before you’ve actually received it.

Should you use the cash or accrual method in your business? The accrual method is required if your business’s annual sales exceed $5 million and your venture is structured as a C corporation. In addition, businesses with inventory must also use the accrual method. It also is highly recommended for any business that sells on credit, as it more accurately matches income and expenses during a given time period.

The cash method may be appropriate for a small, cash-based business or a small service company. You should consult your accountant when deciding on an accounting method.

MAKE NO MISTAKE

When setting up your bookkeeping system, keep the following four points in mind:

1. Competency. To run a small business effectively, you must become familiar with your bookkeeping system as well as the financial reports it will generate. Even if you hire an internal bookkeeper on Day One, it is critical that you understand the numbers. Don’t make the mistake of focusing all your efforts on marketing and production/operations while leaving the financial job in someone else’s hands. Successful entrepreneurs are proficient in all aspects of their ventures, including the numbers. Most community colleges offer basic accounting and finance courses. If numbers aren’t your thing, sign up for a class. It will be well worth the time investment.
Accounting System Components

Every accounting system has key components. Even if you decide to farm out all your bookkeeping work, you should still understand the basic elements of an accounting system. While some may vary depending on the type of business, these components typically consist of the

MAKE NO MISTAKE, CONTINUED

2. *Computerization.* Don’t let your lack of computer skills keep you from automating your bookkeeping system. If you aren’t computer-literate, community colleges also offer a host of classes that provide training both in general computer use as well as specific software programs (such as Microsoft Office or Lotus).

You have to think long term here. Just because a manual system might suffice in the early stages of your operation doesn’t mean that you should ignore automation. Think about what will be needed three to five years down the road. Converting from a manual to an automated system is no fun—you can avoid this costly time drain by going automated upfront.

3. *Consistency.* When deciding on a computer software package for your bookkeeping system, don’t just consider the price. The important issues to consider when buying bookkeeping software are: a) the track record of the software manufacturer, b) the track record of the software system itself (even Microsoft releases flop every now and then), and c) the amount of technical assistance provided by the manufacturer.

4. *Compatibility.* Before you make a final bookkeeping software decision, check to see if the system is compatible with the other software you plan to use in your venture. Imagine the frustration you would experience if the spreadsheets you create in Microsoft Excel, say, for payroll tracking couldn’t be exported into your bookkeeping system.
chart of accounts, general ledger, accounts receivable, inventory, fixed assets, accounts payable and payroll.

**Chart of Accounts**

The first step in setting up an accounting system for your new business is deciding what you want to track. A chart of accounts is kept by every business to record and follow specific entries. With a software program, you can customize the chart of accounts to your business. Account numbers are used as an easy account identification system. For most businesses, a three-number system will suffice; however, a four-number system is sometimes used for more complex ventures.

The chart of accounts is the fuel for your accounting system. After the chart of accounts, you establish a general ledger system, which is the engine that actually runs your business’s accounting system on a daily basis.

**General Ledger**

Every account that is on your chart of accounts will be included in your general ledger, which should be set up in the same order as the chart of accounts. While the general ledger does not include every single accounting entry in a given period, it does reflect a summary of all transactions made.

If your new business will be a small, cash-based business, you can set up much of your general ledger out of your checkbook. The checkbook includes several pieces of information vital to the general ledger—cumulative cash balance, date of the entry, amount of the entry and purpose of the entry. However, if you plan to sell and buy on account, as most businesses do, a checkbook alone will not suffice as a log for general ledger
transactions. And even for a cash-based business, a checkbook cannot be your sole source for establishing a balance sheet.

An important component of any general ledger is source documents. Two examples of source documents are copies of invoices to customers and invoices from suppliers. Source documents are critical in that they provide an audit trail in case you or someone else has to go back and study financial transactions made in your business.

For instance, a customer might claim that he never received an invoice from you. Your source document will prove otherwise. And your source documents are a required component for your accountant at tax time. Other examples of source documents include canceled checks, utility bills, payroll tax records and loan statements.

All general ledger entries are double entries. And that makes sense. For every financial transaction in your business, the money (or commitment to pay) goes from one place to another. For instance, when you write your payroll checks, the money flows out of your payroll account (cash) into the hands of your employees (an expense). When you sell goods on account, you record a sale (income) but must have a journal entry to make sure you collect that account later (an account receivable). The system used in recording entries on a general ledger is called a system of debits and credits. In fact, if you can gain even a basic understanding of debits and credits, you will be well on your way to understanding your entire accounting system.

As outlined above, for every debit, there should be an equal and offsetting credit. It is when the debits and credits are not equal or do not offset each other that your books don’t balance. A key advantage of any automated bookkeeping system is that it will police your debit and credit entries as they are made, making it far more difficult not to balance. It won’t take many 3 A.M. error-finding sessions in a manual system to persuade you to automate your bookkeeping system!
All debits and credits either increase or decrease an account balance. These basic relationships are summarized in the chart below:

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset</td>
<td>Increases</td>
<td>Decreases</td>
</tr>
<tr>
<td>Liability</td>
<td>Decreases</td>
<td>Increases</td>
</tr>
<tr>
<td>Stockholder’s Equity</td>
<td>Decreases</td>
<td>Increases</td>
</tr>
<tr>
<td>Income</td>
<td>Decreases</td>
<td>Increases</td>
</tr>
<tr>
<td>Expense</td>
<td>Increases</td>
<td>Decreases</td>
</tr>
</tbody>
</table>

In a general ledger, debits always go on the left and credits always go on the right. (For examples of general ledger debit-and-credit entries, see the chart on page 649).

While many double entries are made directly to the general ledger, you’ll find it’s necessary to maintain subledgers for a number of accounts in which there is regular activity. The information is then taken in a summary format from the subledgers and transferred to the general ledger. Subledgers showing cash receipts and cash disbursements are pretty easy to follow. However, some subledgers, such as accounts receivable, inventory, fixed assets, accounts payable and payroll can prove to be a challenge in their daily maintenance.

---

**GENERAL LEDGER ENTRIES**

While the bookkeeping process for your business can be rather intricate, single debit and credit entries are really quite basic. Remember that for every entry, there is an equal and offsetting co-entry. Also keep in mind that the different types of accounts have both debits and credits depending on whether the account is increased or decreased (see the chart above). Here are five examples of equal and offsetting general ledger entries for a sock manufacturing business:
### Accounts Receivable

If you plan to sell goods or services on account in your business, you will need a method of tracking who owes you how much and when it

<table>
<thead>
<tr>
<th>General Ledger Entries, Continued</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Purchasing a delivery truck</td>
</tr>
<tr>
<td>Cash (Asset)</td>
</tr>
<tr>
<td>Fixed Asset (Asset)</td>
</tr>
<tr>
<td>2. Purchasing yarn on account to make the socks</td>
</tr>
<tr>
<td>Accounts Payable (Liability)</td>
</tr>
<tr>
<td>Inventory (Asset)</td>
</tr>
<tr>
<td>3. Selling a sock order to a customer on account</td>
</tr>
<tr>
<td>Accounts Receivable (Asset)</td>
</tr>
<tr>
<td>Sales (Income)</td>
</tr>
<tr>
<td>4. Collecting the account receivable from the same customer</td>
</tr>
<tr>
<td>Accounts Receivable (Asset)</td>
</tr>
<tr>
<td>Cash (Asset)</td>
</tr>
<tr>
<td>5. Funding payroll at the end of the month</td>
</tr>
<tr>
<td>Payroll Expense (Expense)</td>
</tr>
<tr>
<td>Cash (Asset)</td>
</tr>
</tbody>
</table>
is due. This is where the accounts receivable subledger comes in. If you will be selling to a number of different customers, then an automated system is a must.

A good bookkeeping software system will allow you to set up subledgers for each customer. So when a sale is made on account, you can track it specifically to the customer. This is essential to ensure that billing and collection are done in a timely manner.

**Inventory**

Unless you are starting a service business, a good inventory-control feature will be an essential part of your bookkeeping system. If you are going to be manufacturing products, you will have to track raw materials, work-in-progress and finished goods, and separate subledgers should be established for each of these inventory categories. Even if you are a wholesaler or a retailer, you will be selling many types of inventory and will need an effective system to track each item offered for sale.

Another key reason to track inventory very closely is the direct relationship to cost of goods sold. Since nearly all businesses that stock inventory are required to use the accrual method for accounting, good inventory records are a must for accurately tracking the material cost associated with each item sold.

From a management standpoint, tracking inventory is also important. An effective and up-to-date inventory-control system will provide you with the following critical information:

---

**AHA!**

If you’ll be selling on credit, your accounts receivable system will be vital. Here are five key components of a good accounts receivable system: 1. **Verify accounts receivable balances.** Use source documents such as invoices to keep balances accurate. 2. **Send accurate and timely invoices.** 3. **Generate accounts receivable reports.** Determine which customers are past due and track credit limits. 4. **Post paid invoices to track who pays you when.** 5. **Match up your customer records totals, your general ledger and subledgers.**
Which items sell well and which items are slow-moving
When to order more raw materials or other items
Where the inventory is stored when it comes time to ship
Number of days in the production process for each item
The typical order of key customers
Minimum inventory level needed to meet daily orders

(For more information on inventory-control systems, see Chapter 19.)

**Fixed Assets**

Fixed assets are items that are for long-term use, generally five years or more. They’re not bought and sold in the normal course of business operation. Fixed assets include vehicles, land, buildings, leasehold improvements, machinery and equipment.

In an accrual system of accounting, fixed assets aren’t fully expensed when they are purchased but rather they are expensed over a period of time that coincides with the useful life (the amount of time the asset is expected to last) of the item. This process is known as depreciation. Most businesses that own fixed assets keep subledgers for each asset category as well as for each depreciation schedule.

In most cases, depreciation is easy to compute. The cost of the asset is divided by its useful life. For instance, a $60,000 piece of equipment with a five-year useful life would be depreciated at a rate of $12,000 per year. This is known as straight-line depreciation.

There are other more complicated methods of fixed-asset depreciation that allow for accelerated depreciation on the front end, which is advantageous from a tax standpoint. You should seek the advice of your CPA before setting up depreciation schedules for fixed-asset purchases.
Accounts Payable

The accounts payable subledger is similar to that used to track accounts receivable. The difference is, accounts payable occur when you purchase inventory or other assets on credit from a supplier rather than tracking a specific sale to a customer.

It is important to track accounts payable in a timely manner to ensure that you know how much you owe each supplier and when payment is due. Many a good supplier relationship has been damaged due to a sloppy accounts payable system. Also, if your suppliers offer discounts for payment within ten days of invoice, a good automated accounts payable system will alert you when to pay to maximize the discounts earned.

Payroll

Payroll accounting can be quite a challenge for the new business owner. There are many federal and state laws regulating what you have to track related to payroll (see Chapter 41). Failure to do so could result in heavy fines—or worse.

Many business owners use outside payroll services. These companies guarantee compliance with all the applicable laws. This keeps the business owner out of trouble with the law and saves time that can be devoted to something else in the business. If you choose to do your own payroll, it’s recommended that you purchase an automated payroll system. Even if the rest of your books are done manually, an automated payroll system will save you time and help considerably with compliance. There’s not a lot of margin for error when you’re dealing with the federal government!
Cost Accounting

Cost accounting is the process of allocating all costs associated with generating a sale, both direct and indirect. Direct costs include materials, direct labor (the total wages paid to the workers who made the product), foreman/plant manager salaries and freight. Indirect costs include all other costs associated with keeping your doors open.

As profit margins have shrunk in many businesses, particularly manufacturing ventures, cost accounting has become an increasingly valuable tool. By knowing the total costs associated with the production of a product, you can determine which inventory items are the most profitable to make. This will enable you to focus your sales efforts on those inventory items rather than on products that offer little or no bottom-line enhancement.

To set up an effective cost accounting system, you should seek input from your CPA. Cost accounting can get fairly complicated, and the money you might spend for a CPA will be more than made up for in the expertise he or she will provide in customizing a cost accounting system for your business.

Under Control

Do you know any business owners who have suffered significant losses due to employee theft or embezzlement? They probably did not have an effective internal-control system in place. Many successful ventures have been set back or even put out of business by an unscrupulous employee or financial service provider. And it is often someone whom the business owner least suspected of wrongdoing.

When setting up a bookkeeping system, you need to focus a good deal of effort on instituting a sound system of policies and procedures governing internal control. Here are ten areas where you need internal control:

1. **You need a written policy that clearly spells out your internal-control system.** Make sure all employees read this policy. Having a policy
not only spells out the procedures to be followed, but it also lets your employees know you are serious about internal controls.

2. **On a regular basis, review the internal-control policy to ensure it is up-to-date.** When changes are made, hold meetings with employees to discuss the changes and to maintain a focus on this vital area.

3. **Make sure all employees take at least one week of vacation each year.** This is often the time during which embezzlement is discovered.

4. **Cross-train others in the company to handle bookkeeping.** If the person who is stealing from you is sick or on vacation, you’ll have a hard time catching him if you let the work go unprocessed until his or her return.

5. **Perform background checks before hiring new employees.** This may sound obvious, but dishonest employees often are hired by unsuspecting employers who failed to check references before making the offer.

6. **Use dual control.** You’re asking for trouble if you have the same person running the accounts payable system, making journal entries, printing and signing checks, and reconciling the checkbook.

7. **Have your CPA or outside bookkeeper perform unannounced spot audits.** You may be uncomfortable performing these audits yourself, but if your policy calls for periodic audits, the CPA looks like the bad guy.

8. **Be careful who you hire as an outside financial services provider.** There are countless stories of entrepreneurs being ripped off by supposedly trusted professional service providers such as accountants and attorneys. Don’t relinquish total control of your cash to an outside bookkeeper. And if he or she seems reluctant to share information with you when you ask for it, this could be a sign of deceptive financial advisory practices.

9. **Back up your computer information regularly.** This is an important function for all aspects of your business. If you begin to
suspect an employee of stealing, the ability to study past transactions will be vital in finding out if your suspicions are justified.

10. *In the early stages of your business, you may be able to monitor much of the cash-control procedures yourself.* However, as your business grows, you will be forced to delegate certain internal-control functions. When you do, make sure you choose qualified, well-trained employees who have proved to be trustworthy. And make sure your policy clearly stipulates the person who is authorized to perform internal-control tasks such as processing invoices and signing checks.

**Financial Statements**

One of the primary benefits of a good bookkeeping system is the generation of timely and useful financial statements. Most automated software packages offer the capability of producing monthly financial statements. This information includes a balance sheet, an income statement and a cash-flow statement. These monthly reports provide invaluable information on the historical measures you need to make the financial decisions that will positively impact your business tomorrow.

Refer to the next chapter for a look at these financial statements in detail and how you can use them for effective short- and long-term financial planning.
In the not-too-distant past, to set up an automated bookkeeping system you had to spend countless hours yourself or hire a programmer to customize an accounting system for your business. And since most new business owners did not have the time to do it themselves or the financial resources to hire a programmer, cumbersome manual systems were used, or the bookkeeping function was completely outsourced to an accountant or bookkeeping service.

Fortunately, those days are over. In today’s market, new business owners will find a number of very affordable and full-featured accounting software packages from which to choose. These popular accounting packages not only allow business owners to track and manage every aspect of their companies’ finances, but they also reduce accounting expenses by saving accounting firms time and effort in producing companies’ year-end tax return and/or financial statements.

Here are some of the most popular “canned” accounting software packages: Intuit’s QuickBooks Pro, Peachtree’s Complete Accounting, and Sage’s Simply Accounting. They range in price from $50 to $299. Regardless of which package you buy, it will be one of the most beneficial purchases you make in starting your small business.
For the Record

As you set up your bookkeeping system, you will need to establish procedures for keeping financial records. The IRS requires that you keep records on hand for certain specified periods of time. And with some financial records, it just makes good business sense to keep them so you can access them at a later date.

One key point here is to make sure these records are kept in a safe place. Whether you store them on-site or at a remote location (some business owners use self-storage units), make sure you use a fireproof cabinet or safe.

Another recommendation is to minimize paper buildup by storing as much as possible on CDs, microfilm or DVDs. Here is a list of what you need to save and for how long, as recommended by accounting firm PricewaterhouseCoopers:

<table>
<thead>
<tr>
<th>Record Type</th>
<th>How Long?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax reports, protests, court briefs, appeals</td>
<td>Indefinitely</td>
</tr>
<tr>
<td>Annual financial statements</td>
<td>Indefinitely</td>
</tr>
<tr>
<td>Monthly financial statements</td>
<td>3 years</td>
</tr>
<tr>
<td>Books of account, such as the general ledger</td>
<td>Indefinitely</td>
</tr>
<tr>
<td>Subledgers</td>
<td>3 years</td>
</tr>
<tr>
<td>Canceled payroll and dividend checks</td>
<td>6 years</td>
</tr>
<tr>
<td>Income tax payment checks</td>
<td>Indefinitely</td>
</tr>
<tr>
<td>Bank reconciliations, voided checks, check stubs and register tapes</td>
<td>6 years</td>
</tr>
<tr>
<td>Sales records such as invoices, monthly statements, remittance advisories, shipping papers, bills of lading and customers’ purchase orders</td>
<td>6 years</td>
</tr>
</tbody>
</table>
### For the Record, continued

<table>
<thead>
<tr>
<th>Record Type</th>
<th>How Long?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase records, including purchase orders and payment vouchers</td>
<td>6 years</td>
</tr>
<tr>
<td>Travel and entertainment records, including account books, diaries and expense statements and receipts</td>
<td>6 years</td>
</tr>
<tr>
<td>Documents substantiating fixed-asset additions, depreciation policies and salvage values assigned to assets</td>
<td>Indefinitely</td>
</tr>
<tr>
<td>Personnel and payroll records, such as payments and reports to taxing authorities, including federal income tax withholding, FICA contributions, unemployment taxes and workers’ compensation insurance</td>
<td>6 years</td>
</tr>
<tr>
<td>Corporate documents, including certificates of incorporation, corporate charter, constitution and bylaws, deeds and easements, stock, stock transfer records, minutes of board of directors meetings, retirement and pension records, labor contracts, and license, patent, trademark and registration applications</td>
<td>Indefinitely</td>
</tr>
</tbody>
</table>
In the last chapter, we explored establishing a good bookkeeping system for your new business. And while a well-organized bookkeeping system is vital, even more critical is what you do with it to establish your methods for financial management and control.

Think of your new bookkeeping system as the body of a car. A car body can be engineered, painted and finished to look sleek and powerful. However, the car body won’t get anywhere without an engine. Your financial management system is the engine that will make your car achieve peak performance.

You may be wondering what exactly is meant by the term “financial management.” It is the process you use to put your numbers to work to make your business more successful. With a good financial management system, you will know not only how your business is...
doing financially, but why. And you will be able to use it to make decisions to improve the operation of your business.

Why is financial management important? Because a good financial management system enables you to accomplish important big-picture and daily financial objectives. A good financial management system helps you become a better macro-manager by enabling you to:

- Manage proactively rather than reactively
- Borrow money more easily; not only can you plan ahead for financing needs, but sharing your budget with your banker will help in the loan approval process
- Provide financial planning information for investors
- Make your operation more profitable and efficient
- Access a great decision-making tool for key financial considerations

Financial planning and control help you become a better micro-manager by enabling you to:

- Avoid investing too much money in fixed assets
- Maintain short-term working-capital needs to support accounts receivable and inventory more efficiently
- Set sales goals; you need to be growth-oriented, not just an “order taker”
- Improve gross profit margin by pricing your services more effectively or by reducing supplier prices, direct labor, etc., that affect costs of goods sold
- Operate more efficiently by keeping selling and general and administrative expenses down more effectively

How does your business measure up against others? Check out Annual Statement Studies, a massive and detailed comparison of financial data from the Risk Management Association’s (RMA) member institutions. Find out more at RMA’s website at rmahq.org (click on “Products and Services,” then “RMA Bookstore”).
Perform tax planning
Plan ahead for employee benefits
Perform sensitivity analysis with the different financial variables involved

Creating Financial Statements

The first step in developing a financial management system is the creation of financial statements. To manage proactively, you should plan to generate financial statements on a monthly basis. Your financial statements should include an income statement, a balance sheet and a cash-flow statement (see pages 663, 666 and 670, respectively).

A good automated accounting software package will create monthly financial statements for you. If your bookkeeping system is manual, you can use an internal or external bookkeeper to provide you with monthly financial statements.

Income Statement

Simply put, the income statement measures all your revenue sources vs. business expenses for a given time period. Let’s consider an apparel manufacturer as an example in outlining the major components of the income statement:

Sales. This is the gross revenues generated from the sale of clothing less returns (cancellations) and allowances (reduction in price for discounts taken by customers).

Cost of goods sold. This is the direct cost associated with manufacturing the clothing. These costs include materials used, direct labor, plant manager salaries, freight and other costs associated with operating a plant (e.g., utilities, equipment repairs, etc.).
- **Gross profit.** The gross profit represents the amount of direct profit associated with the actual manufacturing of the clothing. It is calculated as sales less the cost of goods sold.

- **Operating expenses.** These are the selling, general and administrative expenses that are necessary to run the business. Examples include office salaries, insurance, advertising, sales commissions and rent. (See the “Schedule Of Operating Expenses” on page 664 for a more detailed list of operating expenses.)

- **Depreciation.** Depreciation expense is usually included in operating expenses and/or cost of goods sold, but it is worthy of special mention due to its unusual nature. Depreciation results when a company purchases a fixed asset and expenses it over the entire period of its planned use, not just in the year purchased. The IRS requires certain depreciation schedules to be followed for tax reasons. Depreciation is a noncash expense in that the cash flows out when the asset is purchased, but the cost is taken over a period of years depending on the type of asset.

  Whether depreciation is included in cost of goods sold or in operating expenses depends on the type of asset being depreciated. Depreciation is listed with cost of goods sold if the expense associated with the fixed asset is used in the direct production of inventory. Examples include the purchase of production equipment and machinery and a building that houses a production plant.

  Depreciation is listed with operating expenses if the cost is associated with fixed assets used for selling, general and administrative purposes. Examples include vehicles for salespeople or an office computer and phone system.

- **Operating profit.** This is the amount of profit earned during the normal course of operations. It is computed by subtracting the operating expenses from the gross profit.

- **Other income and expenses.** Other income and expenses are those items that do not occur during the normal course of business operation. For instance, a clothing maker does not normally
earn income from rental property or interest on investments, so these income sources are accounted for separately. Interest expense on debt is also included in this category. A net figure is computed by subtracting other expenses from other income.

- **Net profit before taxes.** This figure represents the amount of income earned by the business before paying taxes. The number is computed by adding other income (or subtracting if other expenses exceed other income) to the operating profit.
- **Income taxes.** This is the total amount of state and federal income taxes paid.
- **Net profit after taxes.** This is the “bottom line” earnings of the business. It is computed by subtracting taxes paid from net income before taxes.

### Income Statement

**ABC Clothing Inc.**

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong></td>
<td>$1,000,000</td>
<td>$1,500,000</td>
</tr>
<tr>
<td><strong>Cost of Goods Sold</strong></td>
<td>–750,000</td>
<td>–1,050,000</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>250,000</td>
<td>450,000</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td>–200,000</td>
<td>–275,000</td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>50,000</td>
<td>175,000</td>
</tr>
<tr>
<td><strong>Other Income and Expenses</strong></td>
<td>3,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Net Profit Before Taxes</strong></td>
<td>53,000</td>
<td>180,000</td>
</tr>
<tr>
<td><strong>Income Taxes</strong></td>
<td>–15,900</td>
<td>–54,000</td>
</tr>
<tr>
<td><strong>Net Profit After Taxes</strong></td>
<td><strong>$37,100</strong></td>
<td><strong>$126,000</strong></td>
</tr>
</tbody>
</table>
### Schedule Of Operating Expenses

**ABC Clothing Inc.**

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Advertising</strong></td>
<td>$5,000</td>
<td>$15,000</td>
</tr>
<tr>
<td><strong>Auto Expenses</strong></td>
<td>3,000</td>
<td>7,500</td>
</tr>
<tr>
<td><strong>Bank Charges</strong></td>
<td>750</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td><strong>Dues &amp; Subscriptions</strong></td>
<td>500</td>
<td>750</td>
</tr>
<tr>
<td><strong>Employee Benefits</strong></td>
<td>5,000</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td>6,000</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>17,800</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Office Expenses</strong></td>
<td>2,500</td>
<td>4,000</td>
</tr>
<tr>
<td><strong>Officers’ Salaries</strong></td>
<td>40,000</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Payroll Taxes</strong></td>
<td>6,000</td>
<td>9,000</td>
</tr>
<tr>
<td><strong>Professional Fees</strong></td>
<td>4,000</td>
<td>7,500</td>
</tr>
<tr>
<td><strong>Rent</strong></td>
<td>24,000</td>
<td>24,000</td>
</tr>
<tr>
<td><strong>Repairs &amp; Maintenance</strong></td>
<td>2,000</td>
<td>2,500</td>
</tr>
<tr>
<td><strong>Salaries &amp; Wages</strong></td>
<td>40,000</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Security</strong></td>
<td>2,250</td>
<td>2,250</td>
</tr>
<tr>
<td><strong>Supplies</strong></td>
<td>2,000</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Taxes &amp; Licenses</strong></td>
<td>1,000</td>
<td>1,500</td>
</tr>
<tr>
<td><strong>Telephone</strong></td>
<td>4,800</td>
<td>6,000</td>
</tr>
<tr>
<td><strong>Utilities</strong></td>
<td>2,400</td>
<td>2,400</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>1,000</td>
<td>3,400</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>$200,000</strong></td>
<td><strong>$275,000</strong></td>
</tr>
</tbody>
</table>
Balance Sheet

The balance sheet provides a snapshot of the business’s assets, liabilities and owner’s equity for a given time. Again, using an apparel manufacturer as an example, here are the key components of the balance sheet:

- **Current assets.** These are the assets in a business that can be converted to cash in one year or less. They include cash, stocks and other liquid investments, accounts receivable, inventory and prepaid expenses. For a clothing manufacturer, the inventory would include raw materials (yarn, thread, etc.), work-in-progress (started but not finished), and finished goods (shirts and pants ready to sell to customers). Accounts receivable represents the amount of money owed to the business by customers who have purchased on credit.

- **Fixed assets.** These are the tangible assets of a business that will not be converted to cash within a year during the normal course of operation. Fixed assets are for long-term use and include land, buildings, leasehold improvements, equipment, machinery and vehicles.

- **Intangible assets.** These are assets that you cannot touch or see but that have value. Intangible assets include franchise rights, goodwill, noncompete agreements, patents and many other items.

- **Other assets.** There are many assets that can be classified as other assets, and most business balance sheets have an “other assets” category as a catchall. Some of the most common other assets include cash value of life insurance, long-term investment property and compensation due from employees.

- **Current liabilities.** These are the obligations of the business that are due within one year. Current liabilities include notes payable on lines of credit or other

“Great companies are built by people who never stop thinking about ways to improve the business.”

—J. Willard Marriott, Founder of Marriott International Inc.
short-term loans, current maturities of long-term debt, accounts payable to trade creditors, accrued expenses and taxes (an accrual is an expense such as the payroll that is due to employees for hours worked but has not been paid), and amounts due to stockholders.

- **Long-term liabilities.** These are the obligations of the business that are not due for at least one year. Long-term liabilities typically consist of all bank debt or stockholder loans payable outside of the following 12-month period.
### Balance Sheet, continued

<table>
<thead>
<tr>
<th>ABC Clothing Inc.</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities &amp; Equity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes Payable—Short Term</td>
<td>60,000</td>
<td>42,400</td>
</tr>
<tr>
<td>Current Maturities of Long-Term Debt</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>82,000</td>
<td>86,000</td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>7,900</td>
<td>13,500</td>
</tr>
<tr>
<td>Taxes Payable</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Stockholder Loans</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>179,900</td>
<td>171,900</td>
</tr>
<tr>
<td>Long-Term Liabilities</td>
<td>120,000</td>
<td>90,000</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$299,900</td>
<td>$261,900</td>
</tr>
<tr>
<td><strong>Owner’s Equity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Stock</td>
<td>75,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Paid-in-capital</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>37,100</td>
<td>163,100</td>
</tr>
<tr>
<td><strong>Total Owner’s Equity</strong></td>
<td>112,100</td>
<td>238,100</td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Equity</strong></td>
<td>$412,000</td>
<td>$500,000</td>
</tr>
</tbody>
</table>

- **Owner’s equity.** This figure represents the total amount invested by the stockholders plus the accumulated profit of the business. Components include common stock, paid-in-capital (amounts invested not involving a stock purchase) and retained earnings (cumulative earnings since inception of the business less dividends paid to stockholders).
Cash-Flow Statement

The cash-flow statement is designed to convert the accrual basis of accounting used to prepare the income statement and balance sheet back to a cash basis. This may sound redundant, but it is necessary. The accrual basis of accounting generally is preferred for the income statement and balance sheet because it more accurately matches revenue sources to the expenses incurred generating those specific revenue sources. However, it also is important to analyze the actual level of cash flowing into and out of the business.

Like the income statement, the cash-flow statement measures financial activity over a period of time. The cash-flow statement also tracks the effects of changes in balance sheet accounts.

The cash-flow statement is one of the most useful financial management tools you will have to run your business. The cash-flow statement is divided into four categories:

BY THE NUMBERS

All new businesses should produce an annual year-end financial statement. This statement should be prepared by your CPA, who will offer you three basic choices of financial statement quality:

1. **Compilation.** This is the least expensive option. Here, the CPA takes management’s information and compiles it into the proper financial statement format.

2. **Review.** In addition to putting management’s information into the proper format, the CPA performs a limited review of the information.

3. **Audit.** This option is the most costly but offers the highest quality. Audited financial statements are prepared in accordance with generally accepted accounting principles and are the type preferred by most lenders and investors.

**Cash-Flow Statement**

The cash-flow statement is designed to convert the accrual basis of accounting used to prepare the income statement and balance sheet back to a cash basis. This may sound redundant, but it is necessary. The accrual basis of accounting generally is preferred for the income statement and balance sheet because it more accurately matches revenue sources to the expenses incurred generating those specific revenue sources. However, it also is important to analyze the actual level of cash flowing into and out of the business.

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The cash-flow statement is one of the most useful financial management tools you will have to run your business. The cash-flow statement is divided into four categories:
A common problem for small-business owners is maintaining adequate cash-flow levels. And increasing sales is not always the answer. Here are some tips that enhance your bank balance regardless of whether or not sales are on the rise:

- **Practice good inventory management.** Don't try to be all things to all people, particularly if you are a wholesaler or retailer. Keeping slow-moving inventory in stock "just in case" costs money.

- **Concentrate on higher margin items.** Focus your efforts on selling those items that generate the most profit rather than on the items that sell the fastest.

- **Take full advantage of trade terms.** Wait until the day a bill or an invoice is due to pay it. Your cash flow will be enhanced, and your valued supplier relationships will not be harmed because you will still be paying on time.

- **Shop for lower priced suppliers.** Before you get started, check with a number of different suppliers to see which one offers the best price and terms.

- **Control operating expenses better.** Utilities expenses can be lowered by minimizing the use of electricity and by adjusting the thermostat upward or downward a few degrees during the summer and winter months. Insurance and telephone service providers should be comparison-shopped on a regular basis. Keep a close eye on employee downtime and overtime. And shop for the best lease rates.

- **Extend bank loans on longer terms.** Many banks are more than willing to extend the term on a loan to businesses in search of cash-flow relief. For instance, by extending the term on a $20,000 loan (at 9 percent interest) from two years to three, a business realizes annual cash-flow enhancement of $3,336.
1. *Net cash flow from operating activities.* Operating activities are the daily internal activities of a business that either require cash or generate it. They include cash collections from customers; cash paid to suppliers and employees; cash paid for operating expenses, interest and taxes; and cash revenue from interest dividends.

2. *Net cash flow from investing activities.* Investing activities are discretionary investments made by management. These primarily consist of the purchase (or sale) of equipment.

3. *Net cash flow from financing activities.* Financing activities are those external sources and uses of cash that affect cash flow. These include sales of common stock, changes in short- or long-term loans and dividends paid.

4. *Net change in cash and marketable securities.* The results of the first three calculations are used to determine the total change

---

### Cash-Flow Statement

**ABC Clothing Inc.**

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Cash Flow From Operating Activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash received from customers</td>
<td>$918,000</td>
<td>$1,438,000</td>
</tr>
<tr>
<td>Interest received</td>
<td>3,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Cash paid to suppliers for inventory</td>
<td>(853,000)</td>
<td>(1,091,000)</td>
</tr>
<tr>
<td>Cash paid to employees</td>
<td>(80,000)</td>
<td>(120,000)</td>
</tr>
<tr>
<td>Cash paid for other operating expenses</td>
<td>(69,300)</td>
<td>(104,400)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(17,800)</td>
<td>(15,000)</td>
</tr>
<tr>
<td>Taxes paid</td>
<td>(15,900)</td>
<td>(54,000)</td>
</tr>
<tr>
<td><strong>Net cash provided (used) by operating activities</strong></td>
<td>($115,000)</td>
<td>$58,600</td>
</tr>
</tbody>
</table>
in cash and marketable securities caused by fluctuations in operating, investing and financing cash flow. This number is then checked against the change in cash reflected on the balance sheet from period to period to verify that the calculation has been done correctly.
Cash-Flow Analysis

The cash-flow statement enables you to track cash as it flows in and out of your business and reveals to you the causes of cash-flow shortfalls and surpluses. The operating activities are the daily occurrences that are essential to any business operation. If these are positive, it indicates to the owner that the business is self-sufficient in funding its daily operational cash flow internally. If the number is negative, then it indicates that outside funds were needed to sustain the operation of the business.

Investing activities generally use cash because most businesses are more likely to acquire new equipment and machinery than to sell old fixed assets. When a company does need cash to fund investing activities in a given year, it must come from an internal operating cash-flow surplus, financing activity increases or cash reserves built up in prior years.

Financing activities represent the external sources of funds available to the business. Financing activities typically will be a provider of funds when a company has shortfalls in operating or investing activities. The reverse is often true when operating activities are a source of excess cash flow, as the overflow often is used to reduce debt.

The net increase/decrease in cash figure at the bottom of the cash-flow statement represents the net result of operating, investing and financing activities. If a business ever runs out of cash, it can’t survive, so this is a key number.

SAVE

Many new business owners can’t afford to seek paid professional advice. Here are three free resources for invaluable financial guidance: 1. Your banker: Even if you aren’t borrowing money for startup, get to know a loan officer where you have your checking account. Meet periodically to discuss the financial direction of your venture. 2. Other business owners: Make the time to network with other small-business owners. 3. SCORE: This is a national volunteer organization set up for the sole purpose of helping new business owners succeed.
Our hypothetical clothing business, ABC Clothing Inc., provides a good example. In Year 1, the growth in the business’s accounts receivable and inventory required $115,000 in cash to fund operating activities. The purchase of $150,000 in equipment also drained cash flow. ABC funded these needs with the sale of common stock of $75,000 and loans totaling $210,000. The outcome was that the company increased its cash resources by $10,000.

Year 2 was a different story. Because the company had a net income of $126,000, there was a good deal more cash ($58,600) flowing in from customers than flowing out to suppliers, employees, other operating expenses, interest and taxes. This enabled ABC to reduce its overall outside debt by $47,600 and increase its cash balance by $10,000.

When you start your business, you’ll be able to use the cash-flow statement to analyze your sources and uses of cash not only from year to year, but also from month to month if you set up your accounting system to produce monthly statements. You will find the cash-flow statement to be an invaluable tool in understanding the hows and whys of cash flowing into and out of your business.

As a new business owner, you will need accurate and timely financial information to help you manage your business effectively. Your financial statements will also be critical budgeting tools as you seek to achieve financial milestones in your business.

“Formula for success: Rise early, work hard, strike oil.”
—J. PAUL GETTY, FOUNDER OF THE GETTY OIL COMPANY
Now that you have the framework for establishing a bookkeeping system and for creating financial statements, what’s next? In this chapter, we will explore how to analyze the data that results from an effective financial management and control system. Additionally, we’ll consider the key elements of a good budgeting system. The financial analysis tools we will discuss are computing gross profit margin and markup, in addition to break-even, working capital and financial ratio analyses. In the section on budgeting, we will look at when, what and how to budget as well as how to perform a sensitivity analysis.

“Success is the ability to go from one failure to another without the loss of enthusiasm.”

—Winston Churchill
Gross Profit Margin and Markup

One of the most important financial concepts you will need to learn in running your new business is the computation of gross profit. And the tool that you use to maintain gross profit is markup.

The gross profit on a product sold is computed as:

\[
\text{Sales} - \text{Cost of Goods Sold} = \text{Gross Profit}
\]

To understand gross profit, it is important to know the distinction between variable and fixed costs. Variable costs are those that change based on the amount of product being made and are incurred as a direct result of producing the product. Variable costs include:

- Materials used
- Direct labor
- Packaging
- Freight
- Plant supervisor salaries
- Utilities for a plant or a warehouse
- Depreciation expense on production equipment and machinery

Fixed costs generally are more static in nature. They include:

- Office expenses such as supplies, utilities, a telephone for the office, etc.
- Salaries and wages of office staff, salespeople, officers and owners
- Payroll taxes and employee benefits
- Advertising, promotional and other sales expenses
- Insurance
- Auto expenses for salespeople
- Professional fees
- Rent

Variable expenses are recorded as cost of goods sold. Fixed expenses are counted as operating expenses (sometimes called selling and general and administrative expenses).
**Gross Profit Margin**

While the gross profit is a dollar amount, the gross profit margin is expressed as a percentage. It’s equally important to track since it allows you to keep an eye on profitability trends. This is critical, because many businesses have gotten into financial trouble with an increasing gross profit that coincided with a declining gross profit margin. The gross profit margin is computed as follows:

\[
\frac{\text{Gross Profit}}{\text{Sales}} = \text{Gross Profit Margin}
\]

There are two key ways for you to improve your gross profit margin. First, you can increase your prices. Second, you can decrease the costs to produce your goods. Of course, both are easier said than done.

An increase in prices can cause sales to drop. If sales drop too far, you may not generate enough gross profit dollars to cover operating expenses. Price increases require a very careful reading of inflation rates, competitive factors, and basic supply and demand for the product you are producing.

The second method of increasing gross profit margin is to lower the variable costs to produce your product. This can be accomplished by decreasing material costs or making the product more efficiently. Volume discounts are a good way to reduce material costs. The more material you buy from suppliers, the more likely they are to offer you discounts. Another way to reduce material costs is to find a less costly supplier. However, you might sacrifice quality if the goods purchased are not made as well.

Whether you are starting a manufacturing, wholesaling, retailing or service business, you should always be on the lookout for ways to deliver your product or service more efficiently. However, you also

---

**TIP**

As you start your business, it will be important to track external financial trends to ensure you are headed in the right direction. It also will be critical to compare your company’s performance to others in your industry. If you are a member of a trade association, the group should offer comparative industry data. Information may also be available from your CPA or banker.
must balance efficiency and quality issues to ensure that they do not get out of balance.

Let’s look at the gross profit of ABC Clothing Inc. (see page 663) as an example of the computation of gross profit margin. In Year 1, the sales were $1 million and the gross profit was $250,000, resulting in a gross profit margin of 25 percent ($250,000/$1 million). In Year 2, sales were $1.5 million and the gross profit was $450,000, resulting in a gross profit margin of 30 percent ($450,000/$1.5 million).

It is apparent that ABC Clothing earned not only more gross profit dollars in Year 2, but also a higher gross profit margin. The company either raised prices, lowered variable material costs from suppliers or found a way to produce its clothing more efficiently (which usually means fewer labor hours per product produced).

**Computing Markup**

ABC Clothing did a better job in Year 2 of managing its markup on the clothing products that they manufactured. Many business owners often get confused when relating markup to gross profit margin. They are first cousins in that both computations deal with the same variables. The difference is that gross profit margin is figured as a percentage of the selling price, while markup is figured as a percentage of the seller’s cost.

Markup is computed as follows:

\[
\frac{(\text{Selling Price} - \text{Cost to Produce})}{\text{Cost to Produce}} = \text{Markup Percentage}
\]

Let’s compute markup for ABC Clothing for Year 1:

\[
\frac{($1 \text{ million} - $750,000)}{750,000} = 33.3\%
\]

Now, let’s compute markup for ABC Clothing for Year 2:

\[
\frac{($1.5 \text{ million} - $1.05 \text{ million})}{1.05 \text{ million}} = 42.9\%
\]

While computing markup for an entire year for a business is very simple, using this valuable markup tool daily to work up price quotes is more complicated. However, it is even more vital. Computing markup on last year’s numbers helps you understand where you’ve
been and gives you a benchmark for success. But computing markup on individual jobs will affect your business going forward and can often make the difference in running a profitable operation.

In bidding individual jobs, you must carefully estimate the variable costs associated with each job. And the calculation is different in that you typically seek a desired markup with a known cost to arrive at the price quote. Here is the computation to find a price quote using markup:

\[
\text{(Desired Markup} \times \text{Total Variable Costs)} + \text{Total Variable Costs} = \text{Price Quote}
\]

Let’s again use ABC Clothing as an example. ABC has been asked to quote on a job to produce 100 dozen shirts. Based on prior experience, the owner estimates that the job will require 100 labor hours of direct labor and five hours of supervision from the plant manager. The total material costs based on quotes from suppliers (fabric, sewing thread, buttons, etc.) will be $40 per dozen. If ABC Clothing seeks a markup of 42.9 percent on all orders in Year 2, it would use a markup table (like the one on page 680) to calculate the price quote.

What if you are a new business owner and don’t have any experience to base an estimate on? Then you will need to research material costs by getting quotes from suppliers as well as study the labor rates in the area. You should also research industry manufacturing prices. Armed with this information, you will have a well-educated “guess” to base your job quote on.

How you use markup to set prices will depend on the type of business you are starting. If you are launching a manufacturing, wholesale or retail operation, you will be able to compute markup using the aforementioned formulas to factor in all the variables in the cost of

When you set up your computerized bookkeeping system to create automatic monthly financial statements, make sure you also automate your business’s financial ratios. There’s no sense in having to compute them manually when the information is available on your PC. Reviewing financial ratios monthly will help you keep an eye on your business’s financial trends.
producing or generating the items you will be selling. Markup can also be used to bid one job or to set prices for an entire product line.

If you are starting a service business, however, markup is more difficult to calculate, particularly for new business owners. With most service businesses, the key variable cost associated with delivering the service to your customers will be you and your employees’ time. In computing proper markup for a service business, you must pay close attention to the time spent to provide the service to customers, as well as to market prices of the services provided. In starting a service business, you will need to research the going rate paid to employees and the market prices for the services you will be providing.

For instance, if you are starting a staffing service, you will need to know what rate is typically paid to employees in this industry as well as

### Markup Computation for ABC Clothing

<table>
<thead>
<tr>
<th>Hours/Dozen</th>
<th>Cost/ Hour</th>
<th>Cost/ Dozen</th>
<th>No. of Dozens</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>1.00</td>
<td>$7.00</td>
<td>100</td>
<td>$700.00</td>
</tr>
<tr>
<td>Supervision</td>
<td>0.05</td>
<td>$20.00</td>
<td>100</td>
<td>$100.00</td>
</tr>
<tr>
<td>Total Labor Cost</td>
<td></td>
<td></td>
<td></td>
<td>$800.00</td>
</tr>
<tr>
<td>Fabric</td>
<td></td>
<td>$35.00</td>
<td>100</td>
<td>$3,500.00</td>
</tr>
<tr>
<td>Sewing Thread</td>
<td></td>
<td>$2.50</td>
<td>100</td>
<td>$250.00</td>
</tr>
<tr>
<td>Buttons</td>
<td></td>
<td>$2.50</td>
<td>100</td>
<td>$250.00</td>
</tr>
<tr>
<td>Total Materials Cost</td>
<td></td>
<td>$40.00</td>
<td>100</td>
<td>$4,000.00</td>
</tr>
<tr>
<td>Total Labor &amp; Materials Costs</td>
<td></td>
<td></td>
<td></td>
<td>$4,800.00</td>
</tr>
<tr>
<td>Desired Markup</td>
<td></td>
<td></td>
<td></td>
<td>0.429</td>
</tr>
<tr>
<td>Price Quote to Customer</td>
<td></td>
<td></td>
<td></td>
<td>$6,859.20</td>
</tr>
</tbody>
</table>
the market rate charged to your customers for temporary labor. This will enable you to compute the proper markup in setting your price to ensure that you will be profitable.

(See the “Markup Computation” chart on page 680 for how the price quote was calculated for ABC Clothing, as shown below and on

<table>
<thead>
<tr>
<th>Price Quote Worksheet for a Service Business</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="chart" alt="Price Quote Worksheet for a Service Business" /></td>
</tr>
</tbody>
</table>

1. Depending on the type of service business, there may be many more labor contributions. All should be considered.

2. Derived by adding together Total Labor Cost & Other Variable Costs

3. Stated as a percentage markup on the costs to provide the service. In most service businesses, this will range from 25% (0.25) to 100% (1.0).

4. Price Quote computed as follows:

   \[
   \text{Total Labor Costs} + \text{Other Variable Costs} + \\
   ([\text{Total Labor Costs} + \text{Other Variable Costs}] \times \text{Desired Markup})
   \]
## Price Quote Worksheet for a Nonservice Business

<table>
<thead>
<tr>
<th>Hours/ Unit</th>
<th>Cost/ Hour</th>
<th>Cost/ Unit</th>
<th>No. of Units</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor #1</td>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Supervision</td>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Total Labor Cost¹</td>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Materials Item #1</td>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Materials Item #2</td>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Materials Item #3</td>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Total Materials Cost²</td>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Other Variable Production Costs</td>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Total Labor, Materials &amp; Other Variable Production Costs³</td>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Desired Markup⁴</td>
<td>%</td>
<td></td>
<td></td>
<td>$</td>
</tr>
<tr>
<td><strong>Price Quote to Customer</strong></td>
<td>$</td>
<td></td>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>

1. Depending on the type of company, there may be many more labor contributions. All should be considered.

2. Depending on the type of company, there may be many types of materials used to produce a product. All should be considered.

3. Derived by adding together Total Labor Cost, Total Materials Cost & Other Variable Production Costs

4. Stated as a percentage markup on production costs. In some businesses, this may be as low as 5% (.05); in others it might be 100% (1.0) or higher.

5. Price Quote computed as follows:

\[
\text{Total Labor Costs} + \text{Total Materials Costs} + \text{Other Variable Production Costs} + (\text{Total Labor Costs} + \text{Total Materials Costs} + \text{Other Variable Production Costs} \times \text{Desired Markup})
\]
page 682 for price quote worksheets you can use in your own business.)

**Break-Even Analysis**

One useful tool in tracking your business’s cash flow will be the break-even analysis. It is a fairly simple calculation and can prove very helpful in deciding whether to make an equipment purchase or in knowing how close you are to your break-even level. Here are the variables needed to compute a break-even sales analysis:

- Gross profit margin
- Operating expenses (less depreciation)
- Total of monthly debt payments for the year (annual debt service)

Since we are dealing with cash flow, and depreciation is a noncash expense, it is subtracted from the operating expenses. The break-even calculation for sales is:

\[
\frac{(\text{Operating Expenses} + \text{Annual Debt Service})}{\text{Gross Profit Margin}} = \text{Break-Even Sales}
\]

Let’s use ABC Clothing as an example and compute this company’s break-even sales for Years 1 and 2:

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit Margin</td>
<td>25.0%</td>
<td>30.0%</td>
</tr>
<tr>
<td>Operating Expenses (less depreciation)</td>
<td>$170,000</td>
<td>$245,000</td>
</tr>
<tr>
<td>Annual Current Maturities of Long-Term Debt*</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
</tbody>
</table>

*This represents the principal portion of annual debt service; the interest portion of annual debt service is already included in operating expenses.

**WARNING**

You must include break-even analyses as part of your pricing policy to ensure you’re making money on every unit you sell and that you’re able to be profitable based on your costs and sales. If you’re not profitable, you won’t stay in business. It’s as simple as that.
Break-Even Sales for Year 1:
\[
($170,000 + $30,000) \div .25 = $800,000
\]

Break-Even Sales for Year 2:
\[
($245,000 + $30,000) \div .30 = $916,667
\]

It is apparent from these calculations that ABC Clothing was well ahead of break-even sales both in Year 1 ($1 million in sales) and Year 2 ($1.5 million).

Break-even analysis also can be used to calculate break-even sales needed for the other variables in the equation. Let’s say the owner of ABC Clothing was confident he or she could generate sales of $750,000, and the company’s operating expenses are $170,000 with $30,000 in annual current maturities of long-term debt. The break-even gross margin needed would be calculated as follows:
\[
($170,000 + $30,000) \div $750,000 = 26.7\%
\]

Now let’s use ABC Clothing to determine the break-even operating expenses. If we know that the gross margin is 25 percent, the sales are $750,000 and the current maturities of long-term debt are $30,000, we can calculate the break-even operating expenses as follows:
\[
(.25 \times $750,000) - $30,000 = $157,500
\]

Working Capital Analysis

Working capital is one of the most difficult financial concepts for the small-business owner to understand. In fact, the term means a lot of different things to a lot of different people. By definition, working capital is the amount by which current assets exceed current liabilities. However, if you simply run this calculation each period to try to analyze working capital, you won’t accomplish much in figuring out what your working capital needs are and how to meet them.

A more useful tool for determining your working capital needs is the operating cycle. The operating cycle analyzes the accounts receivable, inventory and accounts payable cycles in terms of days. In other
words, accounts receivable are analyzed by the average number of days it takes to collect an account. Inventory is analyzed by the average number of days it takes to turn over the sale of a product (from the point it comes in your door to the point it is converted to cash or an account receivable). Accounts payable are analyzed by the average number of days it takes to pay a supplier invoice.

Most businesses cannot finance the operating cycle (accounts receivable days + inventory days) with accounts payable financing alone. Consequently, working capital financing is needed. This shortfall is typically covered by the net profits generated internally or by externally borrowed funds or by a combination of the two.

Most businesses need short-term working capital at some point in their operations. For instance, retailers must find working capital to fund seasonal inventory buildup between September and November for Christmas sales. But even a business that is not seasonal occasionally experiences peak months when orders are unusually high. This creates a need for working capital to fund the resulting inventory and accounts receivable buildup.

Some small businesses have enough cash reserves to fund seasonal working capital needs. However, this is very rare for a new business. If your new venture experiences a need for short-term working capital during its first few years of operation, you will have several potential sources of funding. The important thing is to plan ahead. If you get caught off guard, you might miss out on the one big order that could put your business over the hump.

Here are seven signs that you might be experiencing embezzlement or employee theft:

1. Employees who don’t want a vacation
2. Employees who refuse to delegate certain tasks
3. Ledgers and subledgers that don’t balance
4. Financial statements that don’t balance
5. Lack of audit trails
6. Regular customer complaints that inventory shipments aren’t complete
7. Bookkeeper or accountant who won’t share information
Here are the five most common sources of short-term working capital financing:

1. **Equity.** If your business is in its first year of operation and has not yet become profitable, then you might have to rely on equity funds for short-term working capital needs. These funds might be injected from your own personal resources or from a family member, a friend or a third-party investor.

2. **Trade creditors.** If you have a particularly good relationship established with your trade creditors, you might be able to solicit their help in providing short-term working capital. If you have paid on time in the past, a trade creditor may be willing to extend terms to enable you to meet a big order. For instance, if you receive a big order that you can fulfill, ship out and collect in 60 days, you could obtain 60-day terms from your supplier if 30-day terms are normally given. The trade creditor will want proof of the order and may want to file a lien on it as security, but if it enables you to proceed, that should not be a problem.

3. **Factoring.** Factoring is another resource for short-term working capital financing. Once you have filled an order, a factoring company buys your account receivable and then handles the collection. This type of financing is more expensive than conventional bank financing but is often used by new businesses.

4. **Line of credit.** Lines of credit are not often given by banks to new businesses. However, if your new business is well-capitalized by equity and you have good collateral, your business might qualify for one. A line of credit allows you to borrow funds for short-term needs when they arise. The funds are repaid once you collect the

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**TIP**

If you decide to hire a factoring company, you could look in the Yellow Pages under “Factoring” to start your search, but a safer bet is to call your bank for a recommendation. You might also want to seek recommendations from your industry’s trade associations or local business chamber of commerce.
accounts receivable that resulted from the short-term sales peak. Lines of credit typically are made for one year at a time and are expected to be paid off for 30 to 60 consecutive days sometime during the year to ensure that the funds are used for short-term needs only.

### Operating Cycle

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable Days</td>
<td>30</td>
<td>35</td>
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<tr>
<td>Inventory Days</td>
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<td>80</td>
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<tr>
<td>Operating Cycle</td>
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<td>115</td>
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<tr>
<td>Accounts Payable Days</td>
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<td>-29</td>
</tr>
<tr>
<td>Days To Be Financed</td>
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<td>86</td>
</tr>
<tr>
<td>Purchases</td>
<td>$935,000</td>
<td>$1,095,000</td>
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<tr>
<td>$ Per Day Accounts Receivable</td>
<td>$2,740</td>
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<tr>
<td>$ Per Day Inventory</td>
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<td>$2,877</td>
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<tr>
<td>$ Per Day Accounts Payable</td>
<td>$2,562</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

Calculations are as follows:

- Accounts Receivable Days = (Accounts Receivable x 365) ÷ Sales
- Inventory Days = (Inventory x 365) ÷ Cost of Goods Sold
- Accounts Payable Days = (Accounts Payable x 365) ÷ Purchases
- Purchases = Cost of Goods Sold + Ending Inventory – Beginning Inventory
- $ Per Day Accounts Receivable = 1 ÷ 365 x Sales
- $ Per Day Inventory = 1 ÷ 365 x Cost of Goods Sold
- $ Per Day Accounts Payable = 1 ÷ 365 x Purchases
5. Short-term loan. While your new business may not qualify for a line of credit from a bank, you might have success in obtaining a one-time short-term loan (less than a year) to finance your temporary working capital needs. If you have established a good banking relationship with a banker, he or she might be willing to provide a short-term note for one order or for a seasonal inventory and/or accounts receivable buildup.

In addition to analyzing the average number of days it takes to make a product (inventory days) and collect on an account (accounts receivable days) vs. the number of days financed by accounts payable, the operating cycle analysis provides one other important analysis.

From the operating cycle, a computation can be made of the dollars required to support one day of accounts receivable and inventory, and the dollars provided by a day of accounts payable. Let’s consider ABC Clothing’s operating cycle (see page 687). Had the company maintained accounts receivable at Year 1 levels in Year 2, it would have freed up $20,550 in cash flow ($4,110 x 5 days). Likewise, the 10-day improvement in inventory management in Year 2 enhanced cash flow by $28,770 ($2,877 x 10 days).

You can see that working capital has a direct impact on cash flow in a business. Since cash flow is the name of the game for all business owners, a good understanding of working capital is imperative to making any venture successful.

**Building a Financial Budget**

For many small-business owners, the process of budgeting is limited to figuring out where to get the cash to meet next week’s payroll. There are so many financial fires to put out in a given week that it’s hard to find the time to do any short- or long-range financial planning. But failing to plan financially might mean that you are unknowingly planning to fail.

Business budgeting is one of the most powerful financial tools available to any small-business owner. Put simply, maintaining a good
short- and long-range financial plan enables you to control your cash flow instead of having it control you.

The most effective financial budget includes both a short-range month-to-month plan for at least a calendar year and a long-range

### Operating Cycle Worksheet

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<th>Year 1</th>
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<tbody>
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<td>Accounts Receivable Days</td>
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<td>Inventory Days</td>
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<td>Operating Cycle</td>
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<td>Accounts Payable Days</td>
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<td>Days to Be Financed</td>
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<td>$ Per Day Inventory</td>
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<tr>
<td>$ Per Day Accounts Payable</td>
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</table>

Calculations are as follows:

- **Accounts Receivable Days** = (Accounts Receivable x 365) ÷ Sales
- **Inventory Days** = (Inventory x 365) ÷ Cost of Goods Sold
- **Accounts Payable Days** = (Accounts Payable x 365) ÷ Purchases
- **Purchases** = Cost of Goods Sold + Ending Inventory – Beginning Inventory
- **$ Per Day Accounts Receivable** = 1 ÷ 365 x Sales
- **$ Per Day Inventory** = 1 ÷ 365 x Cost of Goods Sold
- **$ Per Day Accounts Payable** = 1 ÷ 365 x Purchases
quarter-to-quarter plan you use for financial statement reporting. It should be prepared during the two months preceding the fiscal year-end to allow ample time for sufficient information-gathering.

The long-range plan should cover a period of at least three years (some go up to five years) on a quarterly basis, or even an annual basis. The long-term budget should be updated when the short-range plan is prepared.

While some owners prefer to leave the one-year budget unchanged for the year for which it provides projections, others adjust the budget during the year based on certain financial occurrences, such as an unplanned equipment purchase or a larger-than-expected upward sales trend. Using the budget as an ongoing planning tool during a given year certainly is recommended. However, here is a word to the wise: Financial budgeting is vital, but it is important to avoid getting so caught up in the budget process that you forget to keep doing business.

**What Do You Budget?**

Many financial budgets provide a plan only for the income statement; however, it is important to budget both the income statement and balance sheet. This enables you to consider potential cash-flow needs for your entire operation, not just as they pertain to income and expenses. For instance, if you had already been in business for a couple of years and were adding a new product line, you would need to consider the impact of inventory purchases on cash flow.

Budgeting only the income statement also doesn’t allow a full analysis of the effect of potential capital expenditures on your financial picture. For instance, if you are planning to purchase real estate for your operation, you need to budget the effect the debt service will have...
on cash flow. In the future, a budget can also help you determine the potential effects of expanding your facilities and the resulting higher rent payments or debt service.

**How Do You Budget?**

In the startup phase, you will have to make reasonable assumptions about your business in establishing your budget. You will need to ask questions such as:

- How much can be sold in Year 1?
- How much will sales grow in the following years?
- How will the products and/or services you are selling be priced?
- How much will it cost to produce your product? How much inventory will you need?
- What will your operating expenses be?
- How many employees will you need? How much will you pay them? How much will you pay yourself? What benefits will you offer? What will your payroll and unemployment taxes be?
- What will the income tax rate be? Will your business be an S corporation or a C corporation?
- What will your facilities needs be? How much will it cost you in rent or debt service for these facilities?
- What equipment will be needed to start the business? How much will it cost? Will there be additional equipment needs in subsequent years?
- What payment terms will you offer customers if you sell on credit? What payment terms will your suppliers give you?
- How much will you need to borrow?
- What will the collateral be? What will the interest rate be?

**TIP**

Budgeting shouldn’t be approached as something to do when you have time but instead as a priority and part of your overall business financial management plan. Breaking your budget into monthly increments eases the process, making it less overwhelming. Make some general financial goals for the year, then determine how you can achieve them—one month at a time—through a monthly budget.
As for the actual preparation of the budget, you can create it manually or with the budgeting function that comes with most bookkeeping software packages. You can also purchase separate budgeting software such as Quicken or Microsoft Money. Yes, this seems like a lot of information to forecast. But it's not as cumbersome as it looks. (See page 698 for a financial budget and income statement worksheet; you should find a similar format in any budgeting software.)

The first step is to set up a plan for the following year on a month-to-month basis. Starting with the first month, establish specific budgeted dollar levels for each category of the budget. The sales numbers will be critical since they will be used to compute gross profit margin and will help determine operating expenses, as well as the accounts receivable and inventory levels necessary to support the business. In determining how much of your product or service you can sell, study the market in which you will operate, your competition, potential demand that you might already have seen, and economic conditions. For cost of goods sold, you will need to calculate the actual costs associated with producing each item on a percentage basis.

### HOW DO YOU RATE?

Ratio analysis is a financial management tool that enables you to compare the trends in your financial performance as well as provides some measurements to compare your performance against others in your industry. Comparing ratios from year to year highlights areas in which you are performing well and areas that need tweaking. Most industry trade groups can provide you with industry averages for key ratios that will provide a benchmark against which you can compare your company.

Financial ratios can be divided into four subcategories: profitability, liquidity, activity and leverage. Here are 15 financial ratios that you can use...
to manage your new business. (See 694 for sample financial ratios for ABC Clothing Inc.)

■ Profitability Ratios

Gross Profit ÷ Sales = Gross Profit Margin
Operating Profit ÷ Sales = Operating Profit Margin
Net Profit ÷ Sales = Net Profit Margin
Net Profit ÷ Owner’s Equity = Return on Equity
Net Profit ÷ Total Assets = Return on Assets

■ Liquidity Ratios

Current Assets ÷ Current Liabilities = Current Ratio
(Current Assets – Inventory) ÷ Current Liabilities = Quick Ratio
Working Capital ÷ Sales = Working Capital Ratio

■ Activity Ratios

(Accounts Receivable x 365) ÷ Sales = Accounts Receivable Days
(Inventory x 365) ÷ Cost of Goods Sold = Inventory Days
(Accounts Payable x 365) ÷ Purchases = Accounts Payable Days
Sales ÷ Total Assets = Sales to Assets

■ Leverage Ratios

Total Liabilities ÷ Owner’s Equity = Debt to Equity
Total Liabilities ÷ Total Assets = Debt Ratio
(Net Income + Depreciation) ÷ Current Maturities of Long-Term Debt = Debt Coverage Ratio
## Comparative Financial Ratios

### ABC Clothing Inc.

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
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</thead>
<tbody>
<tr>
<td><strong>Profitability Ratios:</strong></td>
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</tr>
<tr>
<td>Gross Profit Margin</td>
<td>25.0%</td>
<td>30.0%</td>
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<tr>
<td>Operating Profit Margin</td>
<td>5.0%</td>
<td>11.7%</td>
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<tr>
<td>Net Profit Margin</td>
<td>3.7%</td>
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<tr>
<td>Return on Equity</td>
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<td>Return on Assets</td>
<td>9.0%</td>
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<tr>
<td><strong>Liquidity Ratios:</strong></td>
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<tr>
<td>Current Ratio</td>
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<tr>
<td>Quick Ratio</td>
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<tr>
<td>Working Capital Ratio</td>
<td>0.10</td>
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<tr>
<td><strong>Activity Ratios:</strong></td>
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<tr>
<td>Accounts Receivable Days</td>
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<tr>
<td>Inventory Days</td>
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<tr>
<td>Accounts Payable Days</td>
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<td>Sales to Assets</td>
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<td><strong>Leverage Ratios:</strong></td>
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<tr>
<td>Debt to Equity</td>
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<tr>
<td>Debt Ratio</td>
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<tr>
<td>Debt Coverage Ratio</td>
<td>2.24</td>
<td>5.20</td>
</tr>
</tbody>
</table>
Remember how pioneers would trade a deer skin for a musket? It was called bartering. Today, the concept is back in a big way—especially online. The companies are everywhere on the net: FreedomBarterExchange.com, BarterItOnline.com, Barter.com, Mr.Swap.com... need we say more?

The barter industry is growing rapidly, with barter sales increasing from $40 million in 1991 to more than $20 billion in 2000. The North America Barter Association reports that approximately $30 billion in transactions were conducted in the United States alone during 2005, while the U.S. Department of Commerce estimates that 20 to 25 percent of worldwide commerce is bartered. Bartering can be an invaluable tool for a startup company.

Bartering can be good for your business in good times, but it can be even better in bad, and, let’s face facts, most startups have their share of downtimes. The main advantage to going the barter route is that if you have unwanted inventory, you can use it to trade rather than spend money you don’t have and pile more onto your already stretched-too-thin budget.

Here’s how bartering works: Let’s say a landscaper needs a root canal. The landscaper belongs to a bartering organization and learns that a local dentist is also part of the same organization. But it turns out the dentist doesn’t need any landscaping done. OK, fine. So the landscaper instead does work for a small public relations firm and a restaurant management consultant. For that work, he has been banking “bartering dollars,” enough to pay for other members’ services, like a dentist, who will then use those bartering dollars to get something from another member. Meanwhile, to belong to a bartering organization, you’re paying a monthly membership fee of $5 to $30.
For your operating expenses, consider items such as advertising, auto, depreciation, insurance, etc. Then factor in a tax rate based on actual business tax rates that you can obtain from your accountant.

On the balance sheet, break down inventory by category. For instance, a clothing manufacturer has raw materials, work-in-progress and finished goods. For inventory, accounts receivable and accounts payable, you will figure the total amounts based on a projected number of days on hand. (See page 689 for the calculations needed to compute these three key numbers for your budget.)

Consider each specific item in fixed assets broken out for real estate, equipment, investments, etc. If your new business requires a franchise fee or copyrights or patents, this will be reflected as an intangible asset.

On the liability side, break down each bank loan separately. Do the same for the stockholders’ equity—common stock, preferred stock, paid-in-capital, treasury stock and retained earnings.

Do this for each month for the first 12 months. Then prepare the quarter-to-quarter budgets for years two and three. For the first year’s budget, you will want to consider seasonality factors. For example, most retailers experience heavy sales from October to December. If your business will be highly seasonal, you will have wide-ranging changes in cash-flow needs. For this reason, you will want to consider

SMARTER TO BARTER?, CONTINUED

Who determines what each service or product is worth? You pay the fair market value, which is determined by buyer and seller. But beware: There are some dishonest barterers out there who will charge higher prices to members or not give a service or product that was part of a deal. You need to keep track of bartering purchases and provide clients with Form 1099-B so you can file it on your taxes.
seasonality in the budget rather than take your annual projected Year 1 sales level and divide by 12.

As for the process, you need to prepare the income statement budgets first, then balance sheet, then cash flow. You will need to know the net income figure before you can prepare a pro forma balance sheet because the profit number must be plugged into retained earnings.

WHERE CREDIT IS DUE

When you book a credit sale in your business, you must collect from the customer to realize your profit. Many a solid business has suffered a severe setback or even been put under by its failure to collect accounts receivable.

It is vital that you stay on top of your A/R if you sell on credit. Here are some tips that will help you maintain high-quality accounts receivable:

- **Check out references upfront.** Find out how your prospective customer has paid other suppliers before selling on credit. Ask for supplier and bank references and follow up on them.

- **Set credit limits, and monitor them.** Establish credit limits for each customer. Set up a system to regularly compare balances owed and credit limits.

- **Process invoices immediately.** Send out invoices as soon as goods are shipped. Falling behind on sending invoices will result in slower collection of accounts receivable, which costs you cash flow.

- **Don’t resell to habitually slow-paying accounts.** If you find that a certain customer stays way behind in payment to you, stop selling to that company. Habitual slow pay is a sign of financial instability, and you can ill afford to write off an account of any significant size during the early years of your business.
# Financial Budget and Income Statement Worksheet

<table>
<thead>
<tr>
<th>Category</th>
<th>Month 1</th>
<th>Month 2</th>
<th>Month 3</th>
<th>Month 4</th>
<th>Month 5</th>
<th>Month 6</th>
<th>Month 7</th>
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<th>Month 9</th>
<th>Month 10</th>
<th>Month 11</th>
<th>Month 12</th>
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| Liabilities & Equity:   |         |         |         |         |         |         |         |         |         |          |          |          |              |
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| Current Maturities of   |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Long-Term Debt          |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Accounts Payable        |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Accrued Expenses        |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Taxes Payable           |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Stockholder Loans       |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Other Current Liabilities|        |         |         |         |         |         |         |         |         |          |          |          |              |
| Bonds Payable           |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Long-Term Debt          |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Common Stock            |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Paid-in-capital         |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Treasury Stock          |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Retained Earnings       |         |         |         |         |         |         |         |         |         |          |          |          |              |
| Total Liabilities & Equity|       |         |         |         |         |         |         |         |         |          |          |          |              |
## Cash-Flow Worksheet

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And for the cash-flow projection, you will need both income statement and balance sheet numbers.

Whether you budget manually or use software, it is advisable to seek input from your CPA in preparing your initial budget. His or her role will depend on the internal resources available to you and your background in finance. You may want to hire a CPA to prepare the financial plan for you, or you may simply involve him or her in an advisory role. Regardless of the level of involvement, your CPA's input will prove invaluable in providing an independent review of your short- and long-term financial plan.

In future years, your monthly financial statements and accountant-prepared year-end statements will be very useful in preparing a budget.

**Sensitivity Analysis**

One other major benefit of maintaining a financial budget is the ability to perform a sensitivity analysis. Once you have a plan in place, you can make adjustments to it to consider the potential effects of certain variables on your operation. All you have to do is plug in the change and see how it affects your company’s financial performance.

Here’s how it works: Let’s say you’ve budgeted a 10 percent sales growth for the coming year. You can easily adjust the sales growth number to 5 percent or 15 percent in the budget to see how it affects your business’s performance. You can perform a sensitivity analysis for any other financial variable as well. The most common items for which sensitivity analysis is done are:

- Sales
- Cost of goods sold and gross profit
- Operating expenses
- Interest rates
- Accounts receivable days
- Inventory days
- Accounts payable days on hand
- Major fixed-asset purchases or reductions
If your business will produce or sell inventory, your inventory management system will be crucial to your business’ success. Keeping too much inventory on hand will cost you cash flow and will increase the risk of obsolescence. Conversely, a low inventory level can cost you sales.

Here are some suggestions to help you better manage your inventory:

- **Pay attention to seasonality.** Depending on the type of business you are starting, you may have certain inventory items that sell only during certain times of the year. Order early in anticipation of the peak season. Then make sure you sell the stock so that you don’t get stuck holding on to it for a year.

- **Rely on suppliers.** If you can find suppliers that are well-stocked and can ship quickly, you can essentially let them stock your inventory for you. “Just in time” inventory management can save valuable working capital that could be invested in other areas of your business.

- **Stock what sells.** This may seem obvious, but too many business owners try to be all things to all people when it comes to inventory management. When you see what sells, focus your purchasing efforts on those items.

- **Mark down stale items.** Once you’re up and running, you will find that certain items sell better than others. Mark down the items that don’t sell, and then don’t replace them.

- **Watch waste.** Keep a close eye on waste. If production mistakes aren’t caught early, you can ruin a whole batch of inventory, which can be extremely costly.
■ Acquisitions or closings

To be an effective and proactive business owner, you will need to learn to generate and understand the financial management tools discussed in this chapter. Even if you don’t consider yourself a “numbers person,” you will find that regular analysis of your financial data will be vital as you start and grow your business.
It’s your business and your budget—which means the size of your paycheck is entirely up to you. But while the freedom of setting your own salary sounds great in theory, in practice most business owners find it a tough call. Should you pay yourself what you need to cover expenses? What your business can afford? The salary you left behind to launch your business?

Your best bet is to factor in all three—and a whole lot more. Obviously, you want your business to succeed and may be willing to accept a temporary drop in income to make that happen. On the other hand, paying yourself far less than you’re worth, or nothing at all, paints an unrealistic picture of the viability of your business for both you and any investors you hope to appeal to now or in the future. Addressing this conundrum begins with taking a hard look at the numbers.
What You Need

Your salary needs will depend on your living expenses, financial situation and comfort level with drawing on personal savings. The first step in planning your pay is to put together a comprehensive list of your expenses. Be sure to include all annual, quarterly and monthly expenses, including your rent or mortgage; car payments, car insurance and gasoline bills; credit cards with outstanding balances; gym membership; grocery bills; and everything else you’ll spend money on in the coming year. Underestimating personal expenses is one of the biggest mistakes a new business owner can make. If you slip into the red, chances are your business will, too.

When you’ve computed your annual personal expenses, divide by 12 to come up with the monthly salary you’ll need to receive to keep from dipping into your savings. Next, decide what portion of your savings you’ll feel comfortable drawing on during the early stages of your company—these must be savings separate from the funds you’ll use to launch your business. If you plan to keep your job, add your annual salary to the personal savings figure. Subtract this number from your total annual personal expenses, and divide by 12. This gives you the minimum monthly salary you’ll need, even if you choose to supplement your startup salary with personal savings or employment income. Now you have a range that runs from the minimum salary needed to cover all your personal expenses to the bare minimum salary you can afford to take by supplementing your income—your minimum salary range.

What You’re Worth

Next, you need to compute what your salary should be given your knowledge and skills, the time you’ll put in and the work you’ll perform.
Tax ramifications are another factor to keep in mind when deciding what to pay yourself and how to structure your compensation. Your tax situation was determined when you chose a business structure (see Chapter 9).

If you’re a sole proprietor, for instance, the IRS considers you and your company to be a single entity. Profits from your business are funneled directly onto your tax return as taxable personal income, whether you draw them out as a salary or leave them in your business account as cash holdings. Similarly, partnership profits flow directly through to the partners, who report their share of the business’s profits or losses on their tax returns—again, whether the profits are left in the business or drawn out as compensation. In both cases, profits retained in the business and later withdrawn by a sole proprietor or partner in subsequent tax years are not taxed again. However, sole proprietors and partners are liable for self-employment tax, which runs at more than 15 percent.

On the other hand, if you form a corporation, your business is a separate legal entity and must file its own return and pay taxes on any profits earned. On the plus side, since the IRS views you and any other owners of the business as employees, any salary you draw is considered a deductible expense.

Corporations also have the option of distributing profits in the form of dividends, typically as cash or company stock. But dividends distributed to shareholders are taxed twice—once as corporate profit and again as income for the recipient—so salaried compensation is a far more tax-efficient way of taking profits from your business. However, the IRS is all too aware of the incentive to distribute profits as salaries and requires that executive salaries be “reasonable.” The IRS prohibits salary deductions it
There are two equally valid methods for computing your market worth:

1. *Open market value*. Given your experience and skills, what would you be paid by an employer in today's market? While this salary won't take into account the additional time you'll put into a startup, the income you're sacrificing to start your business is a useful benchmark in setting your salary.

2. *Comparable companies*. What do the owners of similarly sized firms in the same industry and geographic region pay themselves? To get comparable salaries, check with trade associations, other entrepreneurs in your industry or the local Small Business Development Center.

Neither of these methods takes into account the additional work you’ll be taking on as an owner, nor the risk you’re taking in starting a business. Some entrepreneurs boost market-worth-based salaries by 3 to 5 percent to offset the added responsibilities and risk. Others look at the potential long-term advantage of owning a successful business as compensation for these factors.

**What Your Business Can Afford**

Once you know the salary you need and the salary you deserve, it's time to balance those figures against your business's finances. You’ll need to
check the cash-flow projection in your business plan to ensure that you have enough money coming in to cover your own draw in addition to your other operating expenses. In an ideal scenario, your cash flow will have a surplus large enough to pay your market-worth salary, reinvest funds in the business and leave a little margin for error. Unfortunately, that's unlikely. Since most startups initially operate at a loss—generally for at least six months and possibly for as long as two years—you should plan to start with compensation within the minimum salary range. You can ratchet up toward a market-worth salary as your business reaches a break-even point and continues to grow.

Because your business income may ebb and flow initially, a base salary with a bonus structure that kicks in when your business reaches the break-even point is usually the best way to handle owner's compensation in an early-stage company. You might, for example, decide that when your business moves into the black, you’ll take a percentage of profits every fiscal quarter as a bonus. Bonus percentages range widely, depending on an owner’s goals for the business, personal financial needs and philosophy on reinvesting business earnings. But while your aim may be to reach your market-worth salary rapidly, it’s a good idea to leave some profits in your business as a safety net and to fund future growth.

Planning to take no salary and funnel your profits back into your business? Before you go that route, be sure to take retirement planning into account. The amount you can contribute to an IRA, Keogh, or other qualified retirement plan is based on a percentage of eligible compensation. Without earnings, you won’t be able to fund your retirement with pretax dollars.
When the business reaches a point of consistent profitability, it's time to re-evaluate your salary. Typically, this means taking a salary increase equal in percentage to the business's annual growth rate, then reinvesting the remaining profit in your business. But as with your bonus structure, there is no silver bullet equation for determining the appropriate salary hike. You'll want to factor in the nature of your industry and your business goals. For example, if you're in a turbulent or cyclical industry, you may want to retain the quarterly bonus structure and the flexibility it affords. Or, if your business has the potential for rapid growth, you may want to forego the salary boost and use the extra capital to fund new products, expansion plans or marketing initiatives.

Salaries, bonuses and dividends aside, here are some other ways to get value from your business:

- **Hire family members.** Hiring your spouse, son or daughter to work for you can help you keep money in the family. The caveat? The family member must actually perform work for your company, not just collect a paycheck.

- **Pick up perks.** Country club memberships, company cars, travel and other attractive perquisites are among tax-deductible expenses business owners can write off—provided they have a legitimate business purpose. If you're caught disguising personal expenses as business ones, you'll incur hefty IRS penalties, so check in with your accountant first.

- **Be a borrower.** You can take loans from your company, as long as it’s documented in writing, includes interest at market rate and is tied to a repayment schedule.
Minimum Salary Range Worksheet

To determine your minimum salary range, you need to consider your annual living expenses, personal savings and any income you’ll have during the startup phase of your business. You may need to add additional expense categories, but the worksheet below offers a starting point.

<table>
<thead>
<tr>
<th>Annual Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rent/mortgage</td>
</tr>
<tr>
<td>2. Health insurance</td>
</tr>
<tr>
<td>3. Car payment</td>
</tr>
<tr>
<td>4. Other transportation</td>
</tr>
<tr>
<td>5. Car insurance</td>
</tr>
<tr>
<td>6. Recreation activities</td>
</tr>
<tr>
<td>(includes gym/club dues/restaurants)</td>
</tr>
<tr>
<td>7. Food</td>
</tr>
<tr>
<td>8. Utilities</td>
</tr>
<tr>
<td>9. Misc. living expenses</td>
</tr>
<tr>
<td>10. Credit card payments</td>
</tr>
<tr>
<td>11. Child care</td>
</tr>
<tr>
<td>12. Entertainment</td>
</tr>
<tr>
<td>13. Other expenses</td>
</tr>
<tr>
<td>14. Total Annual Expenses</td>
</tr>
<tr>
<td>15. Portion of personal savings</td>
</tr>
<tr>
<td>allocated to startup costs</td>
</tr>
<tr>
<td>16. Salary or other ongoing income</td>
</tr>
<tr>
<td>17. Sum of lines 15 and 16</td>
</tr>
<tr>
<td>18. Subtract line 17 from line 14 for</td>
</tr>
<tr>
<td>Bare Minimum Annual Salary</td>
</tr>
<tr>
<td>19. Divide line 18 by 12 for</td>
</tr>
<tr>
<td>Bare Minimum Monthly Salary</td>
</tr>
<tr>
<td>20. Total from line 14: Minimum</td>
</tr>
<tr>
<td>Annual Salary</td>
</tr>
<tr>
<td>21. Divide line 20 by 12: Minimum</td>
</tr>
<tr>
<td>Monthly Salary</td>
</tr>
</tbody>
</table>

Lines 19 and 21 represent your Minimum Monthly Salary Range
Whatever you decide in the early phase of your business, plan to reassess your compensation every six months. As your business evolves, its cash-flow model and capital needs may change dramatically—as may your own. A regular assessment enables you to adjust accordingly.
When it comes to taxes, there’s no way to get around the fact that you have to pay them regularly. Federal, state and local taxes combined can take a big chunk out of your company’s money, leaving you with less cash to operate your business.

That’s why it’s important to stay abreast of your business’s tax situation and work with a qualified accountant to understand all that’s required of you by federal and state governments. The task is by no means simple. New business owners face a host of tax requirements and ever-changing rules.

If you miss deadlines or fail to comply with specific rules, you may be hit with large penalties, and, in the worst-case scenario, be forced to close up shop. You’ll also want to pay close attention to tax planning, which will help you find legitimate ways to trim your overall...
tax liability. Your goal is to take the deductions to which you're entitled and to defer taxes as long as you possibly can.

While a knowledgeable accountant specializing in small-business tax issues will keep you out of potential tax quagmires, you'll be on more solid footing if you spend time acquiring your own working knowledge and understanding of the tax laws.

First Things First

One of the first steps you will take as a business owner is to obtain a taxpayer identification number so the IRS can process your returns. There are two types of identification numbers: a Social Security number and an Employer Identification Number (EIN).

The EIN is a nine-digit number the IRS issues. It is used to identify the tax accounts of corporations, partnerships and other entities. You need an EIN if you have employees, operate your business as a corporation or partnership or have a Keogh plan. Be sure to include your EIN on all returns or other documents you send to the IRS.

You can apply for an EIN by phone, fax, mail or online (as long as your business is an entity that is allowed to apply online). You can receive your EIN immediately by phone or by going online. To apply online, go to irs.gov, click on “Businesses” then “Employer ID Numbers.” A completed fax request takes about four to five business days. If you apply by mail, be sure to send in Form SS-4 (Application for Employer Identification Number) at least four or five weeks before you need the EIN to file a return or make a deposit. To apply by phone, call toll-free at (800) 829-4933 from 7 A.M. until 10 P.M. Monday through Friday. Before you call, the IRS suggests you complete Form SS-4 so you have all relevant information available. The person making the call to the IRS must be authorized to sign the form.
Ins and Outs of Payroll Taxes

If you do any hiring, your employees must complete Form I-9 (Employment Eligibility Verification) and Form W-4 (Employee’s Withholding Allowance Certificate). Form I-9 provides verification that each new employee is legally eligible to work in the United States. This form can be obtained from the U.S. Citizenship and Immigration Service (USCIS) by calling (800) 870-3676 or visiting uscis.gov; keep this form in your files in the event an IRS or USCIS inspector wants to see it. Your employees should also complete a state withholding certificate (similar to the W-4) if your state imposes personal income taxes.

Form W-4 indicates the employee’s filing status and withholding allowances. These allowances are used to determine how much federal income tax to withhold from an employee’s wages. To determine how much to withhold from each wage payment, use the employee’s W-4 and the methods described in IRS Publications 15, Employer’s Tax Guide, and 15-A, Employer’s Supplemental Tax Guide. These publications are available online at irs.gov.

You must also withhold Social Security and Medicare taxes—these are known as FICA (Federal Insurance Contributions Act) taxes. The FICA tax actually consists of two taxes: a 6.2 percent Social Security tax and a 1.45 percent Medicare tax. To calculate the tax you need to withhold for each employee, multiply an employee’s gross wages for a pay period by the tax rates. In addition, as an employer, you are required to pay a matching amount of FICA taxes on each of your employees.

Here’s how it works: If an employee has gross wages of $1,000 every two weeks, you must withhold $62 ($1,000 x 0.062) in Social

Consider using a payroll tax service to take care of all payroll tax requirements. The fees charged by such services are relatively reasonable. In addition, these firms specialize in this area and know the ins and outs of all the rules and regulations. With a service, you don’t have to worry about making mistakes or being tardy with payments.
Security taxes and $14.50 ($1,000 x .0145) in Medicare taxes, or $76.50. As an employer, you owe a matching amount as well, so the total amount in FICA taxes to be paid is $153. In the 2009 tax year, the maximum amount of wages subject to Social Security tax is $106,800. There is no limit on the amount of wages subject to the Medicare tax.

The IRS requires any business paying more than $200,000 annually in payroll taxes or other federal taxes to pay them through the Electronic Federal Tax Payment System (EFTPS). If you pay less than that amount, you can still deliver a check for payroll taxes owed with your deposit coupons to an authorized financial institution able to accept federal tax deposits (for more on making these deposits, see IRS Publication 15, also known as Circular E). The form to use to make these deposits is 8109-B (Federal Tax Deposit Coupon). You also can mail payments to Financial Agent, Federal Tax Deposit Processing, P.O. Box 970030, St. Louis, MO 63197. Please note that you can’t print the form from the IRS website. Call (800) 829-4933 to obtain it by mail.

On each coupon show the deposit amount, the type of tax, the period for which you are making a deposit and your phone number. You typically pay these taxes monthly, depending on the size of your business. Approximately five to six weeks after you receive your EIN, the IRS will send you the coupon book. (For more on EFTPS, go to eftps.gov.)

In addition to making your monthly payroll deposits, you are required to file quarterly Form 941 (Employer’s Quarterly Federal Tax Return). This is a form that provides the government with information on the federal income taxes you withheld from your employees’ pay as
well as the FICA taxes you withheld and paid. It also tells the government when the taxes were withheld so the IRS can determine if the federal tax deposit was made on time.

Another tax you have to pay is FUTA (Federal Unemployment Tax Act) taxes, which are used to compensate workers who lose their jobs. You report and pay FUTA tax separately from FICA and withheld income taxes.

You pay FUTA tax on your payroll if during the current or prior calendar year you meet one of two tests: You paid total wages of $1,500 to your employees in any calendar quarter, or you have at least one employee working on any given day in each of 20 different calendar weeks.

The FUTA tax is figured on the first $7,000 in wages paid to each employee annually. The gross FUTA tax rate is 6.2 percent. However, you are given a credit of up to 5.4 percent for the state unemployment tax you pay, effectively reducing the tax rate. As an employer, you pay FUTA tax only from your own funds. Employees do not have this tax withheld from their pay. You generally deposit FUTA taxes quarterly. In addition, you must file an annual return for your FUTA taxes using Form 940 (Employer's Annual Federal Unemployment Tax Return), which must be filed by January 31 of the following year. Most small employers are eligible to use Form 940-EZ.

Federal payroll taxes are not your only concern. States and localities have their own taxes, which will most likely affect you. Forty-two states have a personal income tax (eight do not), which means you are also required to withhold this tax from your employees’ wages. The same is true if you do business in a city or locality with an income tax.

When applying for an EIN from your state, which you will need to do business there, ask about the procedures and forms for withholding and depositing state income taxes. The place to start is with your state department of revenue.

WARNING

If you withhold taxes but don’t deposit or pay them to the IRS, you face a penalty on the unpaid tax, plus interest. If you deposit the taxes late, you will also be hit with a penalty.
At the end of the tax year, you must furnish copies of Form W-2 (Wage and Tax Statement) to each employee who worked for you during the year. Be sure to give the forms to your employees by January 31 of the year after the calendar year covered by the form. Form W-2 provides information on how much money each employee earned and the amount of federal, state and FICA taxes you withheld. You must send copies of W-2s to the Social Security Administration as well.

Declaration of Independents
You may decide your business can’t afford to hire too many full-time employees, and you’d like to use the services of an independent contractor. With an independent contractor, you don’t have to withhold and pay the person’s income, Social Security and Medicare taxes.

While independent contractors (ICs) do translate to lower payroll costs, be advised that the IRS scrutinizes the use of ICs very carefully. The IRS wants to make sure that your workers are properly classified and paying the government the necessary income and payroll taxes that are due.

To stay out of hot water with the IRS, be sure the workers you classify as ICs meet the IRS definition of an IC. The determining factors fall into three main categories: behavioral control, financial control and relationship of the parties. The IRS uses 20 factors when deciding a worker’s status. Here are some of the major ones:

■ **Who has control?** A worker is an employee if the person for whom he works has the right to direct and control him concerning when and where to do the work. The employer need not actually exercise control; it is sufficient that he has the right to do so.

■ **Right to fire.** An employee can be fired by an employer. An IC cannot be fired so long as he or she produces a result that meets the specifications of the contract.

■ **Training.** An employee may be trained to perform services in a particular manner. However, ICs ordinarily use their own methods and receive no training from the employer.
■ *Set hours of work.* Workers for whom you set specific hours of work are more likely to be employees. ICs, on the other hand, usually establish their own work hours.

To stay on the right side of the IRS, it is best to document the relationship you have with any ICs in a written contract. This can be a simple agreement that spells out the duties of the IC. The agreement should state that the independent contractor, not the employer, is responsible for withholding any necessary taxes. In addition, have the

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**IT’S A PLAN**

Employee benefits such as health insurance and pension plan contributions provide attractive tax deductions. With a qualified pension plan, you not only receive a tax deduction for the contributions you make on behalf of your employees, but the money you contribute to your own retirement account is also deductible and is allowed to grow tax-deferred until withdrawn. (A qualified plan meets the requirements of the Employee Retirement Income Security Act [ERISA] and the Internal Revenue Code.)

There are many different plans available, ranging from a Savings Incentive Match Plan for Employees (SIMPLE) to a traditional 401(k) plan (see Chapter 24). The pension design may be slightly different, but they all offer important tax benefits for business owners. So take the time to find out which plan will work best for you.

As far as health insurance is concerned, if your business is incorporated and you work for it as an employee, you can deduct all costs for your own insurance as well as for the coverage for your employees. Self-employed individuals can deduct 100 percent of the premiums paid for health insurance for themselves and their families, as long as the amount isn’t more than the net earnings from the business.
IC submit invoices. It’s a good idea to have a copy of the contractor’s business license and certificate of insurance as well as his or her business card. Also, be sure you file Form 1099-MISC (Miscellaneous Income) at year-end, which is used to report payments made in the course of a transaction to another person or business that is not an employee. By law, you are required to file and give someone Form 1099 if you pay that person more than $600 a year. The form must be given to the IC by January 31 of the following year. Form 1099 with its transmittal Form 1096 must be filed with the IRS by February 28 of the following year.

Whether an individual is determined to be an independent contractor or an employee, it is required that you obtain their complete name, Social Security number and address before any money is paid. If this information is not obtained, you are required to withhold backup withholding taxes for federal income taxes.

If the IRS finds you have misclassified an employee as an independent contractor, you will pay a percentage of income taxes that should have been withheld on the employee’s wages and be liable for your share of the FICA and unemployment taxes, plus penalties and interest. Even worse, if the IRS determines your misclassification was “willful,” you could owe the IRS the full amount of income tax that should have been withheld (with an adjustment if the employee has paid or pays part of the tax), the full amount of both the employer’s and employee’s share of FICA taxes (possibly with an offset if the employee paid self-employment taxes), interest and penalties.

Be advised that there is some relief being offered. If a business realizes it is in violation of the law regarding independent contractors, it
can inform the IRS of the problem and then properly classify the workers without being hit with an IRS assessment for prior-year taxes.

**Selecting Your Tax Year**

When you launch your business, you’ll have to decide what tax year to use. The tax year is the annual accounting period used to keep your records and report your income and expenses. There are two accounting periods: a calendar year and a fiscal year.

A calendar year is 12 consecutive months starting January 1 and ending December 31. Most sole proprietors, partnerships, limited liability companies and S corporations use the calendar year as their tax year. If you operate a business as a sole proprietorship, the IRS says the tax year for your business is the same as your individual tax year.

A fiscal tax year is 12 consecutive months ending on the last day of any month other than December. For business owners who start a company during the year and have substantial expenses or losses, it may be smart to select a fiscal year (as long as the IRS allows it) that goes beyond the end of the first calendar year. This way, as much income as possible is offset by startup expenses and losses.

**Filing Your Tax Return**

Your federal tax filing obligations and due dates generally are based on the legal structure you’ve selected for your business and whether you use a calendar or fiscal year.

- **Sole proprietorships.** If you are a sole proprietor, every year you must file Schedule C (Profit or Loss From Business) with your Form 1040 (U.S. Individual Income Tax Return) to report your business’s net profit and loss. You also must file Schedule SE
(Self-Employment Tax) with your 1040. If you are a calendar-year taxpayer, your tax filing date is April 15. Fiscal-year taxpayers must file their returns no later than the 15th day of the fourth month after the end of their tax year.

In addition to your annual tax return, many self-employed individuals such as sole proprietors and partners make quarterly estimated tax payments to cover their income and Social Security tax liability. You must make estimated tax payments if you expect to owe at least $1,000 in federal tax for the year after subtracting your withholding and credits and your withholding will be less than the smaller of: 1) 90 percent of the tax to be shown on your current year tax return or 2) 100 percent of your previous year’s tax liability. The federal government allows you to pay estimated taxes in four equal amounts throughout the year on the 15th of April, June, September and January.

■ Partnerships and limited liability companies (LLCs). Companies set up with these structures must file Form 1065 (U.S. Return of Partnership Income) that reports income and loss to the IRS. The partnership must furnish copies of Schedule K-1 (Partner’s Share of Income, Credits, Deductions), which is part of Form 1065, to the partners or LLC members by the filing date for Form 1065. The due dates are the same as those for sole proprietors.

■ Corporations. If your business is structured as a regular corporation, you must file Form 1120 (U.S. Corporation Income Tax Return). For calendar-year taxpayers, the due date for the return is March 15. For fiscal-year corporations, the return must be filed by the 15th day of the third month after the end of your corporation’s tax year.

■ S corporations. Owners of these companies must file Form 1120S (U.S. Income Tax Return for an S Corporation). Like partnerships,
shareholders must receive a copy of Schedule K-1, which is part of Form 1120S. The due dates are the same as those for regular corporations.

**Sales Taxes**

Sales taxes vary by state and are imposed at the retail level. It’s important to know the rules in the states and localities where you operate your business, because if you are a retailer, you must collect state sales tax on each sale you make.

While a number of states and localities exempt service businesses from sales taxes, some have changed their laws in this area and are applying the sales tax to some services. If you run a service business, contact your state revenue and/or local revenue offices for information on the laws in your area.

Before you open your doors, be sure to register to collect sales tax by applying for a sales permit for each separate place of business you have in the state. A license or permit is important because in some states it is a criminal offense to undertake sales without one. In addition, if you fail to collect sales tax, you can be held liable for the uncollected amount.

If you’re an out-of-state retailer, such as a mail order seller who ships and sells goods in another state, be careful. In the past, many retailers have not collected sales taxes on the sales of these goods. Be sure you or your accountant knows the state sales tax requirements where you do business. Just because you don’t have a physical location in a state doesn’t always mean you don’t have to collect the sales tax.

Many states require business owners to make an advance deposit against future taxes. Some states will accept a surety bond from your insurance company in lieu of the deposit.

**AHA!**

The IRS offers a Small Business/Self-Employed Virtual Tax Workshop. It’s designed to help new and existing small-business owners understand and meet their federal tax obligations. Log in at tax.gov/virtual workshop.
It’s possible for retailers to defer paying sales taxes on merchandise they purchase from suppliers. Once the merchandise is sold, however, the taxes are due. The retailer adds the sales taxes (where applicable) to the purchase. To defer sales taxes, you need a reseller permit or certificate. For more details on obtaining a permit, contact your state tax department.

**Tax-Deductible Business Expenses**

According to the IRS, the operating costs of running your business are deductible if they are “ordinary and necessary.” The IRS defines “ordinary” as expenses that are common and accepted in your field of business. “Necessary expenses” are those that are appropriate and helpful for your business. Following are some of the business expenses you may be able to deduct.

**Equipment Purchases**

Under the Internal Revenue Code Section 179, expensing allowance, business owners can fully deduct from taxable income a limited amount of the cost of new business equipment in a year rather than depreciating the cost over several years. In 2010, the maximum federal allowance is $134,000, thanks to provisions in the American Recovery and Reinvestment Act of 2009; the maximum allowance falls to $25,000 in 2011. For more information, get a copy of IRS Publication 946, *How to Depreciate Property*, and read “E lecting The Section 179 Deduction.” You also can find a free Section 179 calculator at section179.org.

**Business Expenses**

Some common business expenses for which you can take a deduction include advertising expenses, employee benefit programs, insurance, legal and professional services, telephone and utilities costs, rent, office supplies, employee wages, membership dues to professional associations and business publication subscriptions.
Auto Expenses

If you use your car for business purposes, the IRS allows you to either deduct your actual business-related expenses or claim the standard mileage rate, which is a specified amount of money you can deduct for each business mile you drive. The rate is generally adjusted each year by the IRS. To calculate your deduction, multiply your business miles by the standard mileage rate for the year.

If you use the standard mileage rate, the IRS says you must use it in the first year the car is available for use in your business. Later, you can use either the standard mileage rate or actual expenses method. For tax purposes, be sure to keep a log of your business miles, as well as the

START ME UP

The expenses you incur when launching a new business can run into a lot of money. But how do you treat them when it comes time to do your taxes? If you start a business, you may deduct up to $5,000 of startup costs in the year you launch it and another $5,000 in organizational expenses, which include costs related to creating a corporation. These deductions are reduced if you have more than $50,000 of either type of expense. Keep in mind that startup costs that are not deductible in the year you started the business can be amortized over 15 years beginning in the month you launched your business.

Amortization is a method of recovering (or deducting) certain capital costs over a fixed period of time. Startup costs include advertising expenses and any wages you paid for training employees and fees paid to consultants.

If you spent time looking for a business but did not purchase one, the expenses you incurred during the search may be deductible.
costs of business-related parking fees and tolls, because you can deduct these expenses.

If you use five or more vehicles at the same time in your business, the IRS requires you to use the actual cost expenses method. With the actual cost method, the IRS allows you to deduct various expenses, including depreciation, gas, insurance, garage rent, leasing fees, oil, repairs, tolls and parking fees. If you use this method, keep records of your car’s costs during the year and multiply those expenses by the percentage of total car mileage driven for business purposes.

While using the standard mileage rate is easier for record-keeping, you may receive a larger deduction using the actual cost method. If you qualify to use both methods, the IRS recommends figuring your deduction both ways to see which gives you a larger deduction, as long as you have kept detailed records to substantiate the actual cost method. For more details on using a car for business, see IRS Publications 334 (Tax Guide for Small Business) and 463 (Travel, Entertainment, Gift and Car Expenses).

**Meal and Entertainment Expenses**

To earn a deduction for business entertainment, it must be either directly related to your business or associated with it. To be deductible, meals and entertainment must be “ordinary and necessary” and not “lavish” or “extravagant.” The deduction is limited to 50 percent of the cost of qualifying meals and entertainment.

To prove expenses are directly related to your business, you must show there was more than a general expectation of gaining some business benefit other than goodwill, that you conducted business during the entertainment, and conducting business was your main purpose.

To meet the “associated” with your business test, the entertainment must directly precede or come after a substantial business discussion. In addition, you must have had a clear business purpose when you took on the expense.

Be sure to maintain receipts for any entertainment or meal that costs $75 or more, and record all your expenses in an account book.
IN THE RED?

If you find, after you’ve tallied up all your business deductions and subtracted them from your income, that you’re in the red for the year, don’t despair. There’s something called the net operating loss deduction that will help. It allows you to offset one year’s losses against another year’s income.

The IRS lets you carry this operating loss back two years and use it to offset the income of those previous two years. Doing so may result in a refund. If you still have some losses left after carrying them back, you can carry them forward for up to 20 years. If you don’t want to use the two-year carryback period, you can elect to deduct the net operating loss over the next 20 years. However, once you make that election, you can’t reverse it. Remember, if there is any unused loss after 20 years, you may no longer apply it to any income.

Record the business reason for the expense, amount spent, dates, location, type of entertainment, and the name, title and occupation of the people you entertained.

Travel Expenses

You can deduct ordinary and necessary expenses you incur while traveling away from home on business. Your records should show the amount of each expense for items such as transportation, meals and lodging. Be sure to record the date of departure and return for each trip, the number of days you spent on business, the name of the city, and the business reason for the travel or the business benefits you expect to achieve. Keep track of your cleaning and laundry expenses while traveling because these are deductible, as is the cost of telephone, fax and modem usage.
Home Office

If you use a portion of your home exclusively and regularly for business, you may be able to claim the home office deduction on your annual tax return. This generally applies to sole proprietorships. To claim the deduction, the part of the home you use for your office must be your principal place of business, or you must use it to meet or deal with clients in the normal course of business. Keep in mind that you can’t claim the deduction if you have an outside office as well.

Business owners who keep records, schedule appointments and perform other administrative or management activities from their home offices qualify for a deduction as long as they don’t have any other fixed place of business where they do a large amount of administrative or management work. This holds true even if they don’t see clients or customers in their home offices. The IRS scrutinizes this deduction very carefully, so be sure to follow the rules and keep good records.

Tax Planning

As you operate your business, be on the lookout for ways to reduce your federal and state tax liability. Small-business owners typically have a lot of ups and downs from one year to the next. If you make a lot of money one year and have to pay taxes on all that profit, your business won’t have the reserves needed to tide you over in some other year when business may not be as good.
That’s why it’s important to defer or reduce taxes whenever possible. This is a good way to cut business costs without affecting the quality of your product or service.

Throughout the year, periodically review your tax situation with the help of your accountant. If your income is increasing, look for deductions to help reduce your taxes. For example, if you are a cash-basis taxpayer, think about doing some needed business repairs or stocking up on office supplies and inventory before the end of the year. Cash-basis taxpayers can also defer income into the next year by waiting until the end of December to mail invoices.

For businesses using the accrual method, review your accounts receivable to see if anything is partially worthless. If it is, you can take a deduction for a portion of the amount of the uncollected debt. Check with your accountant to determine whether you meet IRS requirements to claim a bad-debt deduction.

Both cash and accrual taxpayers can make charitable donations before the end of the year and take deductions for them. Beware: If you donate $250 or more, you must obtain written substantiation of the contribution amount or a description of the property given from the charity, as well as a bank record, such as a canceled check or bank statement.

Tax planning is a year-long endeavor. Be sure you know what deductions are available to you, and keep good records to support them. This way, you can reap tax savings, which you can use to successfully operate and grow your business.

Believe it or not, the IRS does publish understandable business tax information. Visit the Small Business and Self-Employed Tax Center on its website at irs.gov.
Accounting and Taxes

American Accounting Association
(941) 921-7747
aaahq.org

American Institute of Certified Public Accountants
aicpa.org

Association of Credit and Collection Professionals
(952) 926-6547
acainternational.org

CCH Inc.
(888) 224-7377
cch.com

Polaris International
international network of accounting firms
(305) 670-0580
accountants.org

Internet Resources

Accounting Software Directory
(800) 827-1151
cpaonline.com
American Express OPEN for Business
resources, workshops, and articles related to small businesses, including financial management and marketing ideas
(800) 492-3344
openforum.com

Fiserv
offers different types of business payment solutions, including the option of paying bills and receiving payments electronically
(262) 879-5000
newfiserv.com

Advertising and Marketing Associations
American Advertising Federation
(800) 999-2231
aaf.org

American Marketing Association
(800) AMA-1150, (312) 542-9000
ama.org

Direct Marketing Association
(212) 768-7277
the-dma.org

International Branding Association
internationalbranding.org

Marketing Research Association
(860) 682-1000
mra-net.org

Radio Advertising Bureau
(800) 232-3131
rab.com

Internet Resources
ICANN (Internet Corp. for Assigned Names & Numbers)
internet security information
(310) 823-9358
icann.org

Small Business Showcase
small-business directory for advertising and marketing
(800) 706-6225
sbshow.com

24/7 Real Media Inc.
provides marketing solutions and products
(212) 231-7100
247realmedia.com

Website Marketing Plan
lots of informative articles, as well as sample business and marketing plans
websitemarketingplan.com
Credit Services

Dun & Bradstreet
provides business credit-reporting services
(866) 203-3151
dnb.com

Equifax Credit Information Services Inc.
provides credit-reporting services
(888) 202-4025
equifax.com

Experian
provides credit-reporting services
(888) 397-3742
experian.com

First Data Corp.
provides credit-processing services
firstdata.com

Telecheck
provides check-guarantee services
telecheck.com

TransUnion
provides credit-reporting services
(866) 922-2100
transunion.com

Business Planning and Development

Internet Resources

AllBusiness.com
articles, business forms, contracts, news and advice
(415) 694-5000
allbusiness.com

BPlans.com
free sample business plans, articles and online tools
(541) 683-6162
bplans.com

Center for Business Planning
sample business plans and planning guidelines for business owners
(800) 423-1228
businessplans.org

Microsoft Support
the latest news, support and web solutions from America’s premier software company
support.microsoft.com

More Business
sample business forms, agreements and marketing plans, as well as informative articles and links
morebusiness.com
Web Site 101
free online tutorials, surveys and articles related to e-commerce
website101.com

Franchise and Business Opportunities
Association
International Franchise Association
(202) 628-8000
franchise.org

Internet Resource
Entrepreneur magazine’s FranchiseZone
loads of information on buying and researching a franchise
entrepreneur.com/franchise

Federal Resources
Business.gov
the official business link to the U.S. government
census.gov
Copyright Clearance Center
(978) 750-8400
copyright.com

Copyright Office
Library of Congress
(202) 707-3000
loc.gov/copyright

Department of Agriculture
(202) 720-2791
usda.gov

Department of Commerce
(202) 482-2000
doc.gov

Department of Energy
(202) 586-5000
doe.gov

Department of the Interior
(202) 208-3100
doi.gov

Department of Labor
(866) 487-2365
dol.gov

Department of Treasury
(202) 622-2000
ustreasury.gov

Equal Employment Opportunity Commission
eeoc.gov

Export-Import Bank of the United States
(800) 565-3946, (202) 565-3946
exim.gov
START YOUR OWN BUSINESS

FCC
(888) 225-5322
fcc.gov

FTC
(202) 326-2222
ftc.gov

International Mail Calculator
ircalc.usps.gov

IRS
(800) 829-4933
irs.gov

Minority Business Development Agency
U.S. Department of Commerce
(888) 324-1551
mbda.gov

Occupational Safety and Health Administration
osha.gov

SBA
(800) 827-5722
sba.gov

Securities & Exchange Commission
(202) 942-8088
sec.gov

U.S. Consumer Product Safety Commission
(301) 504-7912
cpsc.gov

U.S. Food and Drug Administration
(888) 463-6332
fda.gov

U.S. Patent & Trademark Office
(800) 786-9199
uspto.gov

U.S. Postal Service
usps.com

U.S. Printing Office
(202) 512-1800
access.gpo.gov

USA.gov
government information by topic
usa.gov

General Business Resources

Associations

American Express OPEN for Business
resources, workshops, and articles related to small businesses, including financial management and marketing ideas
(800) 492-3344
openforum.com
American Management Association  
(877) 566-9441  
amanet.org

The Edward Lowe Foundation  
(800) 232-LOWE  
lowe.org

Equipment Leasing Association  
(703) 527-8655  
eflaonline.org

Ewing Marion Kauffman Foundation  
for entrepreneurship and education  
(816) 932-1000  
kauffman.org

Independent Insurance Agents & Brokers of America  
(800) 221-7917  
independentagent.com

Insurance Information Institute  
provides information and tools on how to adequately insure your business  
(212) 346-5500  
iii.org

National Association of Women’s Business Owners  
resources and networking opportunities for women-owned businesses  
(800) 55-NAWBO  
nawbo.org

National Association for the Self-Employed  
(800) 649-6273  
nase.org

National Association of Professional Employer Organizations  
(703) 836-0466  
napeo.org

National Minority Supplier Development Council  
links minority-owned businesses with corporations that want to purchase goods and services  
(212) 944-2430  
nmsdc.org

Office Business Center Association International  
provides executive suite location assistance  
(800) 237-4741, (949) 260-9023  
officebusinesscenters.com
**Internet Resources**

**AOL Small Business**
tons of helpful articles for every stage of your business—from startup to managing to growing your venture
smallbusiness.aol.com

**BizBuySell**
useful website to find businesses for sale, as well as online tools and articles; allied with *The Wall Street Journal*
(888) 777-9892
bizbuysell.com

**Business Know-How**
ideas, advice, information and resources for small and home-based businesses
(631) 467-8883
businessknowhow.com

**Business Owners Idea Café**
lots of ideas, articles and resources to start and run a business
businessownersideacafe.com

**Business Town**
plenty of resources and links to start and run a small business
businesstown.com

**CCH Business Owner’s Toolkit**
provides customizable interactive forms and spreadsheets, plus other business tools and resources
toolkit.cch.com

**Entrepreneur.com**
tons of resources, guides, tips, articles and more at this informative website for startup businesses and growing companies
(949) 261-2325
entrepreneur.com

**The Entrepreneurship Institute**
provides resources and networking opportunities for business owners
(614) 895-1153
tei.net

**Smart Biz**
resources for small business, including e-mail marketing campaigns, website creation, legal and business forms, and online tools and equipment
smartbiz.com

**TradePub.com**
free trade publications and white papers for small-business owners
(800) 882-4670
tradepub.com
Business.gov
official business link to the U.S.
Government, with business start-
up and other information
business.gov

Yahoo! Small Business
Resources
news, articles, and resources on
business basics, e-commerce,
marketing, planning, accounting
and more
http://smallbusiness.yahoo.com

Homebased Business
Resources
Associations
American Home Business
Association
homebusinessworks.com

Mothers Home Business
Network
homeworkingmom.com

National Association of Home
Based Businesses
(410) 367-5308, (410) 367-5309
usahomebusiness.com

Internet Resource
Power Home Biz
lots of resources that include
tools, articles and information on
how to start, manage and grow a
home business
powerhomebiz.com

Inventors and Idea
Protection
Associations
Affiliated Inventors
Foundation Inc.
(800) 525-5885
affiliatedinventors.com

American Society of Inventors
(215) 546-6601
americaninventor.org

Innovation Assessment Center
Washington State University
(888) 585-633
business.wsu.edu/organizations
/iac/Pages/index.aspx

Invention Services
International
sponsors the Invention
Convention Trade Show
Administrative &
Communications Center
(800) 458-5624, (323) 878-6951
inventionconvention.com
The Inventors Assistance League International Inc.
(877) IDEA-BIN
inventions.org

Inventory Management Software

AdvancePro
AdvanceWare Technologies
(888) 792-3826
advanceware.net

inFlow Inventory Software
(866) 923-4974
inflowinventory.com

Traker Systems
(800) 314-6863, (951) 693-1376
trakersystems.com

Laws, Regulations and Employee Benefits

Internet Resources

Benefits Link
informative website regarding employee benefits, laws and regulations
(407) 644-4146
benefitslink.com

BizFilings
information on incorporating and related services for business owners, including forms, advice and tools needed
(800) 981-7183, (608) 827-5300
bizfilings.com

Employers of America
information on writing job descriptions, HR manuals, safety tips, training resources and more
(800) 728-3187
employerhelp.org

FindLaw
links to regulatory agencies, sample forms and contracts, articles on all aspects of business development
(800) 455-4565
smallbusiness.findlaw.com

Small Business Advisor
lots of articles and advice for startup businesses
isquare.com

Small Business Notes
useful site that features a wide variety of business articles and resources, including legal issues and record-keeping
smallbusinessnotes.com
Startup Assistance

**Associations**

American Bankers Association  
(800) BANKERS  
aba.com

Association of Small Business Development Centers  
(703) 764-9850  
asbdc-us.org

Commercial Finance Association  
(212) 792-9390  
cfa.com

Independent Community Bankers of America  
(202) 659-8111  
icba.org

National Association of Small Business Investment Companies  
(202) 628-5055  
nasbic.org

National Business Incubation Association  
provides incubator location assistance  
(740) 593-4331  
nbia.org

National Venture Capital Association  
(703) 524-2549  
nvca.org

SCORE  
national office  
(800) 634-0245  
score.org

**Internet Resource**

Business Finance  
thousands of business loan and capital sources  
(800) 835-8857  
businessfinance.com

**Stats**

**Internet Resources**

American FactFinder  
online source for population, housing, economic and geographic data  
(301) 763-INFO (4636),  
(800) 923-8282  
factfinder.census.gov/home/saff/main.html

BizStats  
quick online access to useful financial ratios, business statistics and benchmarks  
(717) 909-6000  
bizstats.com
Center for Women’s Business Research
comprehensive data and information on women-owned businesses
(703) 556-7162
cfwbr.org

The Dialog Corp.
extensive online information retrieval system
(919) 804-6400,
(800) 3-DIALOG
dialog.com

Industry Research Desk
provides online tools and links for researching businesses and industries
virtualpet.com/industry

Valuation Resources
provides links to a wide variety of industry information resources
(812) 459-7742
valuationresources.com

Time Management

Personal Time Management Guide
a website with tips on goal setting, critical skills, teamwork, managing stress and more
time-management-guide.com

Project Management and Collaboration Basecamp
an online project management tool that increases communication among teams and clients
basecamphq.com
3G: third-generation cellular networks being built for better voice calls, web browsing and data downloads at speeds up to 2.4Mbps

4G: the newest generation of cellular phone networks that offers much faster speeds for sending and receiving all types of data

80-20 rule: principle of inventory control that says 80 percent of a business’ sales typically come from 20 percent of its inventory; as a result, most attention should be focused on the 20 percent that generates the most profit

802.11x: any of several wireless local area networking standards—aka Wi-Fi—that transfers data packets over the 2.4GHz or 5GHz radio bands up to 300 feet at speeds up to 300Mbps
**ABC method**: method of inventory control that divides items into A, B and C groups based on their importance to the business; most attention is then devoted to the A, or essential, items

**Absolute net lease**: a lease in which the tenant agrees to pay a basic rent and be responsible and separately pay for all maintenance, operating and other expenses of the building or office

**Accounts payable**: a company liability that represents amounts due for goods or services purchased on credit

**Accounts receivable**: money due to a business from clients and customers; outstanding invoices

**Accrued expenses**: expenses that have been accounted for on the income statement but that have not yet been paid

**Affiliate**: a company that sells another company’s products or services on its site for a commission

**Alternative dispute resolution (ADR)**: a way of resolving disputes without resorting to litigation

**Amenities**: any material goods, services or intangible items that increase the comfort, attractiveness, desirability and value of an office suite or building

**Americans With Disabilities Act (ADA)**: law passed in 1990 that prohibits employers with 15 or more employees from refusing to hire people with disabilities if making “reasonable accommodations” would enable the person to perform the job

**Angel, angel investor**: describes a private individual who invests money in a business

**Assemblage**: the combining of two or more contiguous properties into one large property; an assemblage will often make the one large property more valuable than the separate parts

**Assessment**: the determination or setting of a tax or other charge based on a building’s estimated value
Asset: tangible or intangible object of value to its owner

Asset acquisition: a method of buying a business in which the buyer purchases only those assets of the business he or she wants

Asset remarketers, asset remarketing companies: Firms that work with equipment leasing companies to resell repossessed office equipment through a network of dealers and wholesalers as well as directly to business owners

Attornment: a lease provision that the tenant agrees, in advance, to accept and pay rent or other required payments to a new landlord or legal owner

B2B sales: marketing your products and services to other businesses, as opposed to individual consumers

Balance sheet: a “snapshot” of the assets, liabilities and owner’s equity of a business for a given period

Balloon payment: a large payment (the balloon) at the end of a lease

Base salary: fixed compensation for services, paid to a person on a regular basis

Batch counter: feature on a letter-folding machine that prevents the machine from folding too many sheets together

Binding arbitration: form of ADR in which the arbitrator’s decision is legally binding

Binding letter of intent: a letter of intent would be upheld in a court of law as the actual leasing of space by the tenant from the landlord and by the landlord to the tenant regardless of whether an actual lease document was agreed to or signed

Bluetooth: a short-range (30 feet) wireless protocol for transferring voice and data among cell phones and computing devices over the 2.4 GHz radio band at up to 700Kbps

Bonding: a guarantee of performance required either by law or consumer demand for many businesses, typically general contractors,
temporary personnel agencies, janitorial companies and businesses with government contracts

**Bonus:** a sum of money in addition to salary that’s part of total compensation

**Brand audit:** examining your brand from every angle to see how well it’s working

**Brand equity:** the dollar value your brand generates over decades in the demand it drives and the customer loyalty it creates; brand equity for a very large, well-known company like Nike translates into billions of dollars

**Brand identity:** the visual aspects of your brand that include your signs, packaging and stationery; customer service also falls into this category

**Branding:** your company’s reason for being; the synchronization of all aspects of your company that leads to consistency and creates value around your product or service

**Brandmark:** the illustration that distinguishes your company; in other words, your logo

**Brand position:** how your customers view your brand vis-à-vis the competition

**Brand promise:** how you tell customers about the most important benefit of your product or service, who in turn should be able to connect this benefit right back to your product

**Brand strategy:** a written plan for applying your brand strategically

**Broadband modem:** any device that connects your computer to the same cable that brings content to your TV, or to the T1, ATM fiber relay or DSL of the telephone companies

**Broker:** an insurance agent who represents many different insurance companies

**Browser:** software used for navigating the web
**Building standard work letter:** a list and/or detailed specifications of the construction items (both quantity and quality) that will be provided by the developer to be used in building out a tenant’s office space.

**Business broker:** a person who helps buy and sell businesses, similar to a real estate broker.

**Business interruption insurance:** pays for the cost of repairing or rebuilding a business, as well as income lost, while the business is out of commission.

**Business opportunity:** legal definitions vary; in its simplest terms, a business opportunity is a packaged business investment that allows the buyer to begin a business.

**Cable modem:** modem that connects to your cable TV line to give you high-speed access to the internet.

**Cash-flow statement:** the financial statement that reflects all inflows and outflows of cash resulting from operating, investing and financing activities during a specific time period.

**Certified Development Companies (CDCs):** nonprofit intermediaries that work with the SBA and banks to make 504 Loans available to entrepreneurs.

**Chadder:** type of letter-opening machine that cuts one-eighth of an inch from the end of the envelope.

**Chargeback:** when a customer purchases an item using a credit card and then returns it, this is called a chargeback.

**Chart of accounts:** the list of accounts that are tracked within the general ledger.

**Chattel-mortgage contract:** type of credit contract used for equipment purchase in which the equipment becomes the property of the purchaser on delivery, but the seller holds a mortgage claim against it until the contract amount is fully paid.
Closed-end lease: type of equipment lease in which no money is owed when the lease period ends; the lessee simply turns in the equipment and walks away.

Cohort marketing: marketing to people based on the groups or “cohorts” they were part of during their formative years.

Collateral: anything of value that can be pledged against a loan, including stocks and bonds, equipment, home equity, inventory, and receivables; if you cannot repay the loan, the lender will look to your collateral as a backup source of repayment.

Commissioned financial planner: financial planner who receives commissions on products he or she sells.

Common stock: stock representing equity ownership in a company; it entitles the holder to elect corporate directors and collect dividends.

Competitive analysis: section of a business plan that assesses the competition’s strengths and weaknesses.

Conditional sales contract: type of credit contract used for equipment purchase in which the purchaser does not receive title to the equipment until it is paid for.

Consolidated Omnibus Budget Reconciliation Act (COBRA): law requiring employers to extend health insurance coverage to employees and dependents beyond the point at which such coverage traditionally ceases (such as the termination or death of the covered employee).

Consumer: an individual who purchases services or products from a business.

Contiguous office space: office suites adjacent to each other or having a common demising wall.

Cookie: a piece of data given to your browser by a web server when you visit a web page; the browser stores the cookie in a file and sends a message back to the server each time you revisit that web page.
Corporation: a legal entity that’s separate and distinct from its owners

Cost accounting: the process of allocating all direct and indirect expenses associated with the production and/or sale of a product

Cost of goods sold: the cost that a business incurs to produce a product for sale to its customers

Count cycle: the period at which you count your inventory; a four-week count cycle means you count inventory every four weeks

CPA (certified public accountant): an accountant who has passed a nationally standardized exam in accounting

CPM (cost per thousand): figure that tells you how much it costs to reach 1,000 potential customers with a given form of advertising

CPU: the central processing unit, or the brains of the computer, now commonly includes two separate processing engines bolstered by a lot of on-chip cache memory

Credit: the right-side entries in a double-entry accounting system

Cross-training: training employees to fill more than one position

Cure provision: part of the default section of a promissory note, the cure provision allows you a certain amount of time (usually 10 days) to remedy a default after you’ve been notified

Current maturities of long-term debt: the portion of long-term debt that is due in one year or less

Debit: the left-side entries in a double-entry accounting system

Debit card: a card that can be used to debit money directly from the customer’s checking account

Debt financing: capital in the form of a loan, which must be paid back

Deductions: business and other expenses that reduce your income

Delivery cycle: the time it takes for inventory to be delivered; a ten-week delivery cycle means inventory takes ten weeks to arrive
Depreciation: allocation of the cost resulting from the purchase of a fixed asset over the entire period of its use

Design and development plan: section of a business plan that describes the product's design and charts its development within the context of production, marketing and the company itself

Direct mail: any form of advertising material that’s mailed directly to potential customers, including catalogs, brochures, letters, fliers, postcards and newsletters

Direct writer: an insurance agent who represents one insurance company

Disability insurance: pays a fixed percentage of average earnings if the insured is unable to continue working due to disability

Discount rate: the actual percentage the merchant is charged per credit card transaction by the credit card company or bank; the discount rate is based on sales volume, risk and other factors

Disguised dividend: total compensation in the form of salary, bonus and perquisites that is judged to be excessive by the IRS

Distribution: means of getting product to the end user; describes entire process of moving product from factory to end user

Dividend: distribution of a portion of a company's earnings, determined by the board of directors, to a class of its shareholders

Dollar-control system: tracking system where sales receipts are compared with delivery receipts to determine the cost and gross profit margin on inventory items

Domain name: the words or phrases a user types into their browser to go to a website, such as www.[YourWebsiteName].com

Double-entry accounting: a system of accounting in which the total of all left-side entries is equal to and offset by the total of all right-side entries
**Downline:** the group of sales representatives that a given sales rep has recruited to join a multilevel marketing system; the rep receives a percentage of their sales

**DSL (or xDSL):** DSL or xDSL refers to Digital Subscriber Line, which is a way of connecting to the internet at high speeds over your copper telephone line

**Due diligence:** the process of investigating legal, financial and other aspects of any business deal (such as buying a business) before the deal is completed

**Easement:** the right of an individual or entity to use the land of another individual or entity, usually for a specific purpose

**E-commerce:** the process of conducting business on the internet and accepting credit cards or other forms of digital payments (using PayPal, for example)

**E-mail auto responder:** an automatic e-mail response generated by the web server in response to a customer’s e-mail inquiry

**Employee leasing company:** company that administers personnel functions for clients and “leases” the client’s employees back to them; also known as a professional employer organization (PEO)

**Employee stock ownership plan:** a plan that gives employees shares of stock in a company

**Employment practices liability insurance:** an optional part of workers’ compensation coverage, this protects the corporation from being sued for acts of individual employees (such as in a sexual harassment case)

**Empowerment zones/renewal communities:** designated economically disadvantaged zones that offer state and/or federal tax breaks and other incentives to businesses that locate there

**Engagement letter:** letter of agreement between a lawyer or an accountant and his/her client that spells out the terms
Equity financing: capital received in exchange for part ownership of the company

Errors and omissions liability coverage: protects professionals, such as consultants or accountants, from damages resulting from an error or omission in their work

Escalator(s): term used to describe how a tenant’s payment for rent or service shall increase

Ethernet: a packet-based wired transmission protocol primarily used in local area networking, Ethernet is the common name for the IEEE 802.3 industry specification that is often identified by its data transmission rate

Executive search firm: company that recruits executive, technical or professional job candidates for client companies; also called recruitment firm or headhunter

Executive summary: the opening section of a business plan; describes the business, product or service in brief

Expense: money spent for goods or services

Factors: companies that buy businesses’ accounts receivable

Family and Medical Leave Act (FMLA): law requiring certain employers to give employees 12 weeks of unpaid leave for the birth or adoption of a baby or the serious illness of the employee or a close family member

FBML: Facebook Markup Language, a subset of HTML used to create or enhance a more personalized Facebook page and experience for the end user

Fee-for-service planner: financial planner who charges a fee for making recommendations on what you should do to achieve your financial goals

Financial budget: a projection of future financial performance
First in, first out (FIFO): method of inventory accounting that assumes items purchased first are sold first

Fixed assets: assets that are not bought and sold in the normal course of business but that are purchased for long-term use in the production or sales process

Flipcam: a handheld camera that’s easy to use and fits in your pocket; it’s affordable and starts up within seconds; to upload clips to a computer, simply flip out a USB connection and hook it up to your computer for video download

Focus group: type of primary market research where a group of potential customers (typically five to 12 of them) come together in an informal environment, under the guidance of a moderator, to discuss a product or service

Franchise disclosure document: a disclosure document franchisors are legally required to provide to prospective franchisees

Franchisee: the person who buys a system of doing business from a franchisor

Franchisor: a person or company that sells a system of doing business to franchisees and provides them with ongoing training and support

Friction feeder: feature on a letter-folding machine that pulls sheets through using a rubber wheel

Fulfillment: shipping and handling of sales orders

General ledger: the main records of the assets, liabilities, owner’s equity, income and expenses of an organization

General liability coverage: insures the business against accidents and injuries that happen on its premises as well as exposure to risk related to its products

Generational marketing: marketing to consumers based on social, economic, demographic and psychological factors
Gross profit margin: the percentage of gross profit realized on goods sold after subtracting cost of goods sold from sales

GSM (Global System for Mobile Communications): this 2G (about 9.6Kbps) digital network is most pervasive in international markets, although these days, it’s pretty much outdated (having been replaced by 3G and 4G wireless cellular networks)

Guarantee and surety agreement: for businesses with insufficient operating history or assets on which to base a loan, banks will require the loan to be guaranteed with your personal assets, such as the equity in your home, in a guarantee and surety agreement

Hard drive: one or more physical hard drives, each of which can be divided into several local hard drives, are the warehouses where you store multi-megabyte programs and gigabytes worth of data

Hold harmless and indemnify: a clause in a contract that protects one party to a business purchase from being held responsible for results of the other party’s actions prior to the purchase

Holdover rent: an extremely high rent intended as a penalty to a tenant who continues to use or remain in possession of a leased premises beyond the lease term

House list: the mailing list a business develops in-house, comprised of names and addresses collected from current or potential customers

Icon: a graphic image that allows users to click to the subject represented by that picture

iMac/Mac Pro: Apple’s version of a desktop computer that runs the Mac OS operating system (and Windows as well)

Income: money received for goods or services produced or as a return on investment

Income statement: a financial statement that charts revenues and expenses over a period of time
Independent sales organization: representatives from out-of-town banks that, for a commission, match businesses with banks that will grant them merchant status

Intangible asset: an asset of a business such as patents, franchise rights and goodwill that does not physically exist but that has value to the business

Intellectual property: a nontangible property, such as a trade secret, patent or trade name, to which one has legal rights

Internal control: a system that is designed to minimize the risk of financial loss due to incompetence or dishonesty of an employee or an outside bookkeeper

ISP: an acronym for internet service provider; see online service

Job description: an outline of how a job fits into the company, listing broad goals and basic responsibilities

Job specification: more detailed than a job description, this describes the job but also lists specific education, experience, skills, knowledge, or physical requirements for performing the job

Jogger: mechanism on a letter-opening machine that helps settle contents of envelopes so they don’t get cut

Key person insurance: life insurance policy taken out on “key people” in the company, where the beneficiary is the company; proceeds are used to buy out the deceased’s shares or ownership interest in the company

Laptop: portable devices that weigh between 3 and 8 pounds and typically offer all the computing power and functionality of a desktop computer, only they’re portable and can run on battery

Last in, first out (LIFO): method of inventory accounting that assumes most recently purchased items are sold first; allows business owner to value inventory at the less expensive cost of the older inventory
Laundering: the practice of depositing one merchant’s sales slips through another merchant’s account; it is illegal in many states and prohibited by both Visa and MasterCard

LCD: liquid crystal displays have totally replaced CRT monitors; 17-inch LCDs are giving way to 19- to 27-inch screens for desktops, and up to 17-inch screens for laptops

Leasehold improvements: the construction, fixtures, attachments, and any and all physical changes and additions made to lease premises by the tenant (with or without the landlord’s permission), or on the tenant’s behalf by the landlord or a representative (e.g., subcontractor) of the tenant

Leasing agent: an individual who specializes in leasing commercial real estate, including office, retail and industrial space; a leasing agent must work for a principal broker and be licensed

Letter of credit: a letter from a major customer showing that the customer has contracted to buy from you; can be used in establishing relationships with suppliers

Letter of intent: an agreement signed by both tenant and landlord prior to the lease, setting forth primary terms, conditions and considerations that are to form the basis of the lease

Liability: an obligation to another party

Liability of landlord provision: a lease clause severely limiting the landlord’s liability for use of the building and office space by tenants, guests, employees, visitors, etc.

Life-stage marketing: marketing to consumers based on what they are doing at a given period in life, such as having children, buying a home or retiring

Limited liability company (LLC): a hybrid business structure that combines tax advantages of a partnership with liability protection of a corporation
Link: a programming command that allows users to jump from one web page to another in one mouse click

LinkedIn: a social networking site that includes businesspeople from around the world, representing 150 industries and 200 countries, on which you can find, be introduced to, and collaborate with qualified people who can help you accomplish your business and professional goals

Liquidation preference: stockholders with liquidation preference are first in line to recover their investment if the company goes under

List broker: company that locates and arranges the rental of direct mail and e-mail lists of potential customers to other businesses

List-rental company: company that rents mailing lists of consumer or business names and addresses

Loan agreement: written contract specifying terms of a loan

Long-term debt: the portion of external debt (usually from banks) that is due after one year

MacBook/MacBook Pro: Apple’s version of a laptop computer that runs the Mac operating system (and Windows as well)

Manual tag system: system of inventory tracking in which tags are removed from products at the time of the sale and then cross-checked against physical inventory later to figure out what was sold

Market rent: the current rental rates paid by tenants for like use (office space) in buildings of comparable size with similar qualities of construction and building amenities and comparable surrounding neighborhood characteristics and environment; term is often used in renewal clauses as the rent that will be paid if lease renewal occurs

Market research: research into the characteristics, spending habits, location and needs of your business’s target market, the industry as a whole, and the particular competitors you face
Market survey: the study of the spending characteristics and purchasing power of the consumers who are within your business’s geographic area of operation.

Markup: the percentage above the cost of producing a product that is charged to the customer.

Merchant account: an account that allows a merchant to accept payment from customers via credit card; may be granted through banks or directly from a credit card company.

MFD: multifunction devices are different combinations of printer, scanner, copier and fax sharing the same color or black-and-white page description engine; usually based on laser or inkjet technology.

Minority business enterprise (MBE): a business that is certified owned by a minority entrepreneur; certification can be obtained from a variety of organizations and is generally required for participation in government set-aside programs.

Mission statement: a short written statement of your business goals and philosophies.

Needs period: the sum of the count cycle, delivery cycle and order cycle.

Netbook: a scaled-down laptop computer that typically weighs less than three pounds and is used primarily for basic computing functions, such as word processing or surfing the net while on the go. Cost is typically under $300, while a traditional laptop runs $500 to $1,500 or more.

Network marketing: a system of doing business in which participants recruit other sales representatives as part of their “downline” and receive a commission based on sales of their downline as well as on their own sales.

Nonbinding arbitration: form of ADR in which the arbitrator makes a recommendation that parties can accept or reject.

Nonvoting stock: stock that pays a fixed dividend and is given preference ahead of common stockholders in the event of liquidation.
Notes payable: short-term notes of less than one year either under lines of credit or with a stated repayment date

Occupational Safety and Health Administration (OSHA): federal agency that regulates workplace safety

Online service: a company that offers internet access, website hosting services, or an e-commerce turnkey solution, for example

Open-end lease: type of equipment lease in which if the value of the equipment at the end of the lease is less than the value established in the lease contract, the lessee must pay the difference

Open-to-buy: the amount budgeted for inventory purchases for a given period

Operating expenses: the day-to-day expenses incurred in running a business, such as sales and administration, as opposed to production

Operations and management plan: section of a business plan that describes how the business will function on a day-to-day basis

Optical drive: various combinations of CD, DVD and Blue-ray optical drives come bundled with computers

Order cycle: the time it takes to process paperwork and place orders with your vendors for inventory

Outsourcing: practice of sending certain job functions outside a company instead of having an in-house department or employee handle them; functions can be outsourced to a company or an individual

Owner’s equity: excess of total assets minus total liabilities

Package policy: insurance policy that combines several standard coverages, such as liability, burglary and vehicle, in one package

Paid-in-capital: the additional amount paid for common stock over and above the value upon issuance

Paid search services: services that allow you to pay to have your website be part of the results of a user’s query on a search engine site; there
are three types: paid submission, pay-for-inclusion and pay-for-placement

**Partnership:** a business that’s unincorporated and organized by two or more individuals

**Perquisites:** a payment or profit received in addition to a regular wage or salary

**Physiographics:** the physical conditions related to aging, such as arthritis or near-sightedness

**Pitch letter:** an introductory letter sent to members of the media in an effort to get publicity for a business; sometimes this is a cover letter accompanying a press release

**Plugins:** consists of a computer program that interacts with a host application (a web browser or an e-mail client, for example) to provide a certain, usually very specific, function “on demand”; also called add-in, add-on, snap-in, or extension

**Point-of-sale (POS) software:** software that records information about inventory, sales and profits at the point of sale

**Positioning statement:** one- or two-sentence statement summarizing what differentiates your business from the competition

**Preferred stock:** stock that pays a fixed dividend and is given preference ahead of common stockholders in the event of liquidation

**Premium:** any free giveaway to customers (also called ad specialties); common premiums include key chains, caps, T-shirts, pens and desk accessories

**Prepaid legal plan:** payment structure in which a client prepays a set monthly fee in return for a fixed amount of legal services per month (differs from monthly retainer in that services are more limited and relationship is not with one law firm, but with a prepaid legal service firm, which has relationships with many law firms)
Press kit: packet (typically a folder) containing a cover letter, a press release, photos and additional information about a business; sent to members of the media to get publicity for the business

Press release: standard written notice sent to the media in an effort to get publicity for your business

Price comparison website: an online service that lets you compare multiple e-tailers and their product pricing; also displays consumer satisfaction scores or rankings so you can easily determine if an online company is reputable

Primary research: information you gain directly from the source, such as potential consumers

Private-label credit card: a credit card a merchant issues with his or her business’s name on it

Promissory note: details the principal and interest owed on a loan and when they are due; it also outlines the events that would allow the bank to declare your loan in default

Property/casualty coverage: protects physical property and equipment of the business against loss from theft, fire or other perils; all-risk coverage covers against all risks; named-peril coverage covers only against specific perils named in the policy

Push e-mail: an instant receipt capability for mobile workers that “pushes” e-mail to an appropriate handheld device, such as a BlackBerry, as soon as a message lands on the server back at the office

Pyramid scheme: an illegal type of network marketing in which participants receive revenues primarily for recruiting others rather than for selling the company’s products or services

Qualified retirement plan: a plan that meets requirements of the Internal Revenue Code and, as a result, is eligible to receive certain tax benefits
RAM: considerably slower and cheaper than cache, RAM is the bucket your computer’s processor uses to hold vast amounts of data and program instructions while it works

Ratio analysis: the use of certain financial ratios to compare the performance of a business with years past and with industry peers

Replacement cost insurance: covers cost of replacing property at current prices

Rent abatement: a concession offered by a landlord as an inducement to tenants to lease office space; provides for a reduction of monthly rent by omitting a required payment for a specific number of months

Retained earnings: the cumulative amount of after-tax earnings less dividends paid that the owner draws over the life of a business

Safelist: a form of e-mail marketing and advertising where the members have agreed to receive each other’s messages

Sales: the gross amount of revenue generated by a business

S corporation: a type of corporation that provides its owners with tax treatment that is similar to a partnership

Script: hard copy of a website’s contents that contains all text and graphics in sequential order, from the home page to the last page

Sealer: part of a postage meter’s base that seals mail

Search engine: a navigational tool that lets web users type in a word or phrase to get multiple listings of sites containing that word or phrase

Secondary research: information that has already been gathered by other agencies or organizations and compiled into statistics, reports or studies

Self-employment tax: tax paid by a self-employed person to help finance Social Security and Medicare
**Sensitivity analysis:** the process of changing financial variables in a financial budget to determine their potential impact on the company’s future performance

**Server:** a host computer; see web host

**Shopping cart program:** software that allows the processing of online sales transactions

**Slitter:** type of letter-opening machine that slits the seam of the envelope

**Smartphone:** a handheld cell phone that integrates the functionality of a basic cell phone with that of a personal digital assistant (PDA) or other information device; used for voice calls as well as for wireless internet applications, such as surfing the web and e-mail; can also handle applications, such as contact management and scheduling

**Sole proprietorship:** a business organization that is unincorporated and has only one owner

**Stacker:** part of a postage meter’s base that stacks mail

**Stock acquisition:** a method of buying a business in which the buyer purchases the actual stock of the business

**Target market:** the specific group of consumers or businesses you want to sell to

**Temporary help company:** company that recruits employees to work for client companies on a temporary basis

**Tenant construction work letter:** an addendum or attachment to the lease document that details the responsibilities of both the tenant and the landlord as they relate to the construction of the tenant’s office space

**Tenant improvements:** the construction, fixtures, physical changes and additions made to an office space for the benefit of the tenant by the tenant (usually with the landlord’s permission) or on the tenant’s behalf by the landlord or a representative (subcontractor)
**Total counter:** feature on a letter-folding machine that tells you how many sheets have been folded

**Trade credit:** billing a business for products with a grace period (typically 30 days) before payment is due

**Trade-out:** term used in the radio industry to refer to bartering products or services for airtime

**Turnover:** turning over your inventory means that 100 percent of original inventory has been sold

**Twitter:** a mini blog that streams people’s posts in real-time; main focus of the site is it allows people to share and discover information that’s happening now; your posts can spread across the globe to millions, immediately

**Umbrella coverage:** protects you for payments in excess of your existing coverage or for liabilities not covered in your other policies

**Unique selling proposition:** what differentiates your product or service from others of a similar type; what makes it unique

**Unit-control system:** system of inventory tracking in which bin tickets are kept with each product type, listing stock number, description, maximum and minimum quantities stocked, cost (in code) and selling price; these tickets correspond to office file cards that list a stock number, selling price, cost, number of items to a case, supply source, order dates, quantities and delivery time

**URL (universal resource locator):** the accepted convention for specifying web addresses (domain names)

**Vacuum feeder:** feature on a letter-folding machine that pulls sheets through using air suction; good for coated and glossy paper stock

**Venture capital:** generally refers to institutional venture capital firms that invest other people’s money and manage it for them; venture capitalists typically seek a high degree of involvement and expect a
high rate of return in a short time; venture capitalists look for an idea that is well-formulated, well-documented and well-protected

VoIP (voice over internet protocol): sends voice conversations over the internet using a packet-based outline as opposed to the analog circuit-switched technology used in PSTN (public-switched telephone network)

Voting stock: see common stock

Waiver: form that typically accompanies or is part of an employment application; when signed by applicant, it authorizes former employers or schools to release information about the applicant

Web host: any computer that’s dedicated (always connected) to the internet and has access to the web

Widgets: a portable chunk of web code that can be installed and inserted into your website or blog, often taking the form of on-screen tools, such as clocks, event countdowns, stock market tickers, social site feeds, flight arrival information, daily weather, etc.

Workers’ compensation insurance: covers medical and rehabilitation costs and lost wages for employees injured at work; required by law in all states
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