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THE
**COMPLETE
IDIOT'S
GUIDE**[®] TO

"Larry Easto knocks down the myths and lays out a foundation on which a solid business can be built."

—Dianne Buckner, host of CBC's Venture

Small Business for Canadians

- ◆ **Quick and easy techniques** for discovering your entrepreneurial spirit
- ◆ **Idiot-proof steps** to developing a winning business plan
- ◆ **Down-to-earth advice** to keep your business thriving

Larry Easto



Dear Reader,

If you are reading this, you have some curiosity about small business. The good news is that your interest no longer places you in an invisible minority. Millions of other people share your interest. Most have chosen to earn their livelihood by running their own businesses. Many others earn their living, or at least a good chunk of it, by supplying goods and services to small businesses. Unquestionably, small business has become one of today's most popular business topics.

However, this popularity has spawned a "bad-news" scenario. It seems that everyone who has any connection with small business, however tenuous, has advice for small business owners. Whether having worked in or with small business for an entire working life (for which qualification I plead guilty) or a recent graduate of training program, we all want to help owners of small businesses. This in turn results in a broad, and often conflicting, range of information and advice from which individual owners can select whatever seems most appropriate for his or her business. Since each business is as unique as its owner is, this is not necessarily a bad thing.

The main challenge that individual owners face is the problem of having too much choice. How does the small business owner select the appropriate resource to address a specific issue? My intention in preparing this material was not so much to offer yet another advice book for owners of small business but to present a guide that would help them make their own decisions, based on their own resources.

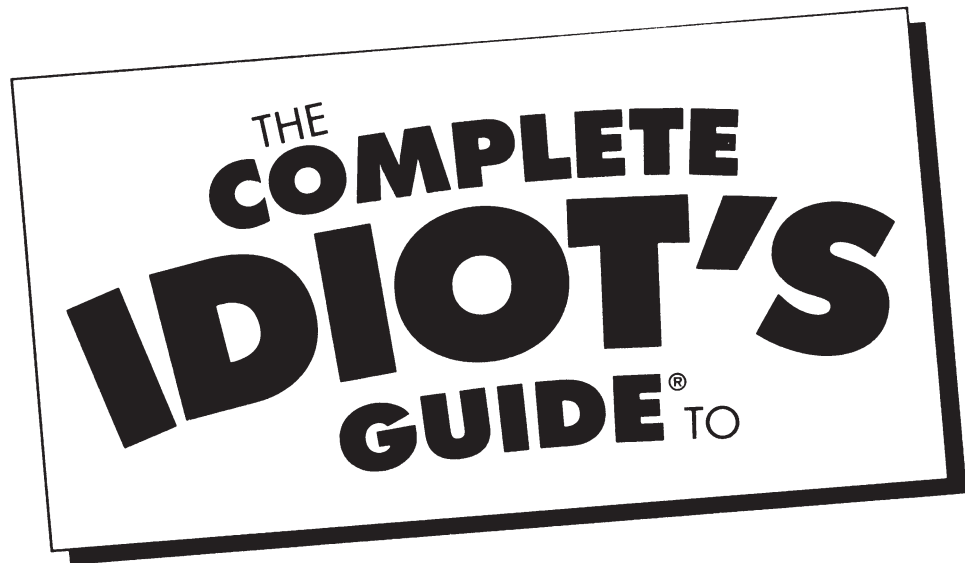
I honestly believe that most of us know what is right for us. Few of us need someone else to tell us what to do. Occasionally, we all need some help in deciding what is right or at least good for us. In preparing this material it was my intention and my hope that it will help you make the most appropriate decisions, regardless of where you are in your small business journey.

Whether you are just thinking about starting one, looking for more customers, wanting to expand or wanting to get out of business, the ultimate decision is yours to make. It is my hope that the following material will help you make the best decision possible.

All the best with whatever decision you make.



Larry Easto



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by Larry Easto



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Acquisitions Editor: Paul Woods
Copy Editor: Lu Cormier
Production Editor: Lori McLellan
Art Direction: Mary Opper
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Contents at a Glance

Part 1: Before You Start	1
1 So You Want to Run Your Own Business?	3
<i>Many of us would rather earn a living by working for ourselves than by working for someone else. If you would like to pursue the self-employed option, think about what you will be getting into. Is it really the right thing for you?</i>	
2 The Family That Works Together Sometimes Works	13
<i>Some small businesses are really extensions of the family. As a result, family things like computers and furniture, money, and even people are used for business and family purposes. This arrangement can work well for suitable families.</i>	
3 What Can You Sell?	21
<i>Like it or not, when you run a business you have to sell something to someone. From the almost limitless number of choices available, what can you sell?</i>	
4 Do You Start from Scratch...or Buy a Business?	33
<i>Starting your own business from scratch is not your only option. If you have the money, you can buy an existing business or even buy the know-how.</i>	
5 Keeping It Legal	43
<i>Warning! Running your own business can be dangerous to your legal well being. Maybe you need a lawyer to help protect you.</i>	
Part 2: On Your Mark	53
6 Preparation for Your Business	55
<i>Setting up a business is like setting up a new home: You get to buy all sorts of neat things. And the best part is that some or all of these purchases are tax deductible!</i>	
7 Plan to Succeed	67
<i>If you build it they will come...maybe! But first you have to plan what you are going to build and how you are going to build it.</i>	
8 Where Will the Money Come From?	77
<i>It takes money to make money. Don't count on winning a lottery to start your business. Where will you get the money to buy all the neat things you think you need to start your business?</i>	

9	Making Sense of Financial Statements	85
	<i>Think of your financial statements as storybooks using numbers instead of words. If you don't know how to read them, you won't know if your story has a happy ending.</i>	
10	Don't Take Risks—Manage Them!	97
	<i>Life can be risky, but running a business need not be. You can manage some risks, and for others...there might be insurance.</i>	
	Part 3: Growing Your Business	107
11	Marketing Is More Than Advertising and Selling	109
	<i>Forget the slick television advertising campaigns. Marketing is whatever you do to get more business for your business.</i>	
12	Plan to Market	119
	<i>Even if you do have a better mousetrap, don't count on the world beating a path to your door. You can't just sit back and wait for things to happen—you have to make things happen. In marketing, good things don't happen to those who wait.</i>	
13	What Do Your Customers Need and Want from You?	127
	<i>Try as you may, you simply cannot run a business without customers. So don't ignore them. Get to know them as well as possible and treat them so well that they will want to keep coming back to you.</i>	
14	How to Distinguish Your Business from the Competition	135
	<i>You are unique. There is no one else in the world just like you. So why should your business be like anyone else's? Make your business as unique as you are. It's the best way of distinguishing yourself from the competition.</i>	
15	Quality Service: Your Best Competitive Advantage	145
	<i>Regardless of the specifics of what your customers say they are looking for, they all demand quality service. As long as you provide better quality service than the competition, your customers will keep coming back.</i>	
16	Ensuring Your Customers Are Happy	155
	<i>Happy customers are good for business. Not only are they likely to return, they might even tell others how much they like you. How much do your customers like you? Ask them; you might be surprised.</i>	

-
- 17 How to Promote Your Business...Your Way** **165**
So how do you tell the world about your better mousetrap? There are many ways of doing it. But make sure that your message is not lost among the thousands of others competing for your customers' attention.
- 18 Wired Marketing...Using the Internet** **177**
The Internet is not an orderly arrangement of information as we have been told. It is more like a vast poorly indexed swamp of information, some of which can be quite helpful. Regardless of what you call it, using the Internet for marketing can be useful. But don't even think of going there without having considered carefully what you want to do.
- 19 How to Obtain More Business for Your Business** **187**
Forget about those unfortunates who are not yet customers of yours. Concentrate on those wise people who have seen the light and chosen to do business with you. They can help you generate more business for your business. Maybe they can even help those poor lost souls who are not yet clients see the light and choose to do business with you.
- Part 4: Expanding Your Business** **197**
- 20 Referrals Are Win-Win-Win Scenarios** **199**
You can't do it all, but you can do a lot. Especially with a little help from your friends. Don't try to do more if you know you can't. Refer the work to others—everyone wins!
- 21 You Can Accomplish More by Subcontracting Some Work to Others** **207**
If you like control—and what business owner doesn't?—you will love subcontracting. Somebody else does the work and you get to supervise and, what's even better, get paid for it.
- 22 Hiring an Employee—The Traditional First Expansion Step** **217**
Hiring an employee can give you more than an extra pair of hands. Between the added hassle of government regulations, your employee's wrongful acts, and who knows what else, having one or more employee can add big-time stress to your business life.

23 A Joint Venture Is Like Living Common Law	227
<i>How would you like to join forces with a compatible business to be able to offer more to your customers? Try a joint venture—it is like trying out a merger before making a commitment.</i>	
24 A Merger Is a Marriage of Two Businesses	235
<i>The fastest way to expand your business to offer more to your customers is to take over another business. Merger is one business strategy that can work as well for small businesses as it does for big businesses.</i>	
Part 5: Keeping Your Business Going or Selling It	245
25 Keep Fit for a Healthy Business	247
<i>What would happen to your business if you suddenly suffered but survived a serious heart attack? Heart attacks and many other health problems can be prevented. Don't allow your own poor health to jeopardize the well being of your business.</i>	
26 To Survive, Your Business Needs Cash Flow	255
<i>If you look after the pennies, the dollars will take care of themselves. How well are you managing your pennies? Are there enough of them coming in to make up for those that escape? There had better be!</i>	
27 Transform Your Business to Cope with a Changing World	261
<i>Death and taxes used to be the only two things that were inevitable. Now, change is also inevitable. Just because some changes are beyond your control, it doesn't mean that you idly stand by and let them happen. You can always do something.</i>	
28 You'll Need a Plan to Get Out of Your Business	271
<i>All good things come to an end—even running your own business. Your challenge is to get out of your business while at the same time keeping as much of your sanity and money as possible.</i>	
Appendix A: Glossary of Terms	279
Appendix B: Government Information and Contacts: Registration and Employment Standards Requirements	281
Appendix C: Canadian Books for Small Business	297
Index	

Contents

Foreword	xv
Introduction	xvi
Part 1: Before You Start	1
1 So You Want to Run Your Own Business?	3
You Need to Earn a Living	4
There Are Also Personal Reasons.	4
Are You Playing Business? The Business-Hobbyist.	5
<i>The Problem with Business-Hobbyists.</i>	5
A Part-Time Business and a Full-Time Job.	7
How Entrepreneurial Are You Anyway?	8
<i>Entrepreneurial Assessment</i>	8
2 The Family That Works Together Sometimes Works	13
Family Money Becomes a Business Asset	14
The Cash Flow Roller Coaster.	14
What You Give to Your Business Takes from Your Family.	15
<i>Can I Please Use the Computer?</i>	15
Do Family Members Belong in Your Business?	16
<i>Family Members as Employees.</i>	16
<i>Family Members as Owners.</i>	16
Divide and Manage.	19
<i>Ownership Issues</i>	19
<i>Management Issues</i>	19
<i>Family Issues</i>	19
3 What Can You Sell?	21
Selling Your Own Work	22
<i>Advantages of Selling Your Own Product.</i>	22
<i>Disadvantages of Selling Your Own Product.</i>	23
Selling Items That Other People Produce	24
<i>Advantages of Selling Items Produced by Others.</i>	26
<i>Disadvantages of Selling Items Produced by Others</i>	26
Supplying Intangibles: Be a Service Provider.	26
<i>Advantages of Being a Service Provider</i>	26
<i>Disadvantages of Being a Service Provider</i>	27
Families and Individuals Need Services.	27
And So Do Businesses and Other Organizations	28
Who Will Buy Yours Goods or Services?	28
Small Businesses Are Service Businesses	28
Some Goods and Services Are Suitable for Both Types of Customers	30
What Business Should You Start?	30

4	Do You Start from Scratch...Or Buy a Business?	33
	Starting from Scratch...Doing It Your Way	34
	<i>Getting Free and Low-Cost Information and Advice</i>	34
	<i>You Might Need Some Professional Advice</i>	35
	<i>Your Biggest Risk</i>	35
	<i>Ready for a Daunting Challenge?</i>	35
	<i>What About the Uncertainties?</i>	36
	Hey, I Want That One...Buying an Active Business	36
	<i>What's Good About Buying a Business?</i>	37
	<i>What's Bad About Buying a Business?</i>	37
	What About Buying a Franchise?	39
	<i>The Good News About Franchises</i>	40
	<i>And The Bad News About Buying a Franchise</i>	40
5	Keeping It Legal	43
	New Relationships Mean New Responsibilities	44
	Protect Your Personal Assets	44
	What's the Right Business Format for You?	45
	<i>Sole Proprietorship</i>	45
	<i>Partnership</i>	46
	<i>Incorporation</i>	48
	Choosing Your Lawyer	50
	Part 2: On Your Mark	53
6	Preparation for Your Business	55
	Make Sure That You Will Have Customers	56
	Planning Your Business	56
	Business Name	56
	Setting Up Your Office	57
	<i>Space</i>	57
	<i>Furniture</i>	57
	<i>Telecommunications Services</i>	59
	<i>Answering Machines and Answering Services</i>	60
	<i>Computers</i>	61
	<i>Fax Machines</i>	63
	<i>Photocopiers</i>	63
	<i>Multifunction Machines</i>	63
	<i>Specialized Equipment</i>	63
	<i>Office Supplies</i>	64
	Do You Need a Motor Vehicle?	64
	What About Licences, Permits, Tax Registrations, Etc.?	64

7	Plan to Succeed	67
	Why Plan?	68
	Creating Your Plan	68
	What Results Do You Hope to Achieve?	69
	Who Will Your Customers Be?	70
	Who Are Your Competitors?	70
	How Much Will You Charge?	75
	On the Financial Side	75
	What Else Do You Need?	75
	Use Your Plan—Don't Archive It!	76
8	Where Will the Money Come From?	77
	Start With Your Own Resources	78
	How Much Do They <i>Really</i> Love You?	79
	Can You Lend Me a Few Dollars?	79
	<i>Term Loan</i>	80
	<i>Demand Loan</i>	81
	<i>Line of Credit</i>	82
	Who Wants to Invest in My Business?	82
	Where Else Can I Get Financial Help?	83
	<i>Government Funding</i>	83
	<i>Leasing Equipment</i>	84
9	Making Sense of Financial Statements	85
	Why You Need Financial Statements	86
	Forward-Looking Statements.	86
	<i>Sources and Uses of Funds</i>	86
	<i>Forecasting Statements</i>	87
	<i>Cash Flow Forecast</i>	89
	Historical Statements	92
	Choosing an Accountant to Prepare And Interpret Your Statements	92
10	Don't Take Risks—Manage Them!	97
	What Is Risk Management?	98
	So How Can You Manage Risks?	98
	What About Those Risks Beyond My Control?	99
	What's Normal?	100
	Property Insurance Is Good.	101
	Life and Casualty Insurance Is Also Good.	103
	<i>Common Insurance Terms</i>	104

Part 3: Growing Your Business	107
11 Marketing Is More Than Advertising and Selling	109
Approaches to Marketing	110
<i>The Production Approach</i>	110
<i>The Sales Approach</i>	111
<i>The Marketing Approach</i>	111
What Marketing Does for You	112
Everybody Seems to Be Doing It	113
How the Big Guys Market.	113
Why Marketing Is Different for Small Businesses	115
12 Plan to Market	119
Marketing in <i>Your</i> Business	120
Planning Your Marketing	120
The Steps to Successful Marketing.	121
<i>Identify a Need</i>	121
<i>Identify the Customer</i>	121
<i>Outline Your Strategy</i>	122
Putting It All Together: Your Marketing Plan	123
<i>Sample Marketing Plan</i>	124
Keeping It Current	125
The Dos and Don'ts of Marketing Planning	126
<i>Do</i>	126
<i>Don't</i>	126
13 What Do Your Customers Need and Want from You?	127
You and Your Customers.	127
Who Are Your Customers?	128
<i>List Existing Customers</i>	128
<i>Identify Ideal Customers</i>	129
<i>Profile Ideal Customers</i>	129
What Do Your Customers Need?	130
What Do Your Customers Expect?	130
<i>Reliability</i>	131
<i>Responsiveness</i>	132
<i>Assurance</i>	132
<i>Empathy</i>	133
What Customers Are <i>Not</i> Looking For.	133
14 How to Distinguish Your Business from the Competition	135
Distinguishing Yourself.	136
What's Special About Your Service?.	138

What's Special About Your Products? Your Service!	139
How Your Unique Features Become Benefits to Your Customers	140
Marketing Aspects of Your Business Assets	142
Your Network of Contacts Also Distinguishes You	142
15 Quality Service: Your Best Competitive Advantage	145
How Quality Gives You the Competitive Edge	145
The Four Basic Principles of Quality Service	146
<i>Deliver Quality Service Consistently</i>	146
<i>Provide Appropriate Knowledge.</i>	150
<i>Deliver What You Promise; Don't Promise What You Can't Deliver.</i>	150
<i>Add Value to Standard Services.</i>	151
The Five Basic Truths About Customer Service	152
16 Ensuring Your Customers Are Happy	155
How Did You Do? Measuring Customer Satisfaction.	155
<i>Informal Techniques</i>	156
<i>Formal Techniques</i>	157
Making a Good Thing Better.	162
17 How To Promote Your Business...Your Way	165
Who Should You Tell About Your Business? Why Tell Them? . . .	166
Making Personal Contacts	166
<i>Networking.</i>	166
<i>Memberships in Clubs and Organizations</i>	167
Planned Communications	167
<i>Speeches/Formal Presentations</i>	167
<i>Conducting Seminars and Workshops</i>	167
<i>Print Communications.</i>	168
<i>Advertising</i>	168
<i>Direct Mail.</i>	169
<i>Writing for Publication</i>	169
<i>Public Relations</i>	169
What Approach Is Best for You?	169
Communication Priorities.	172
18 Wired Marketing...Using the Internet	177
How an Internet Presence Is Like Traditional Marketing.	178
<i>A Means to an End.</i>	178
<i>Requires Effective Management.</i>	178
<i>Integrate the Internet with Other Marketing Tools</i>	179
<i>Provide Information About Your Business</i>	179
<i>Networking.</i>	179
But It's Also Different from Traditional Marketing Tools.	180

<i>Global Reach</i>	180
<i>Multipurpose</i>	180
<i>Provide Pictures, Sound, and Film Files</i>	180
<i>Create 24-Hour-a-Day Service</i>	180
<i>Open International Markets</i>	180
<i>Provide Up-to-Date Information Quickly</i>	181
How Can the Internet Help with Your Marketing Activities? . . .	181
<i>Identify New Business Opportunities</i>	181
<i>Identify Customer Needs</i>	181
<i>Distinguish Yourself and Your Business</i>	182
<i>Identify External Challenges</i>	182
<i>Develop More Business</i>	182
What Can You <i>Not</i> Do on the Internet?	183
E-Business, E-Commerce, E-Eeeekkl!	184
19 How to Obtain More Business for Your Business	187
The Basic Approaches	188
What's Good and Bad About These Approaches?	188
The Four-Step Sure-Fire Way to Obtain More Business	189
<i>Identify Existing Customers for Existing Goods or Services</i>	189
<i>Identify Existing Customers for New Goods or Services</i>	192
<i>Identify New Clients for Existing Goods or Services</i>	194
<i>Identify New Clients for New Goods or Services</i>	196
Part 4: Expanding Your Business	197
20 Referrals are Win-Win-Win Scenarios	199
Continue to Help Your Customer...Make a Qualified Referral . . .	200
Qualifying Other Businesses and Your Customers	200
Making the Referral	202
Your Customer Wins	203
<i>Needs and Wants Are Met</i>	203
<i>Preferred Status</i>	203
<i>Reassurance That You Care</i>	203
The Other Business Wins	204
<i>New Business</i>	204
<i>No Direct Marketing Effort</i>	204
<i>Peer Recognition</i>	204
And You Win	204
<i>Expand Capacity</i>	204
<i>Maintain Relationship with Existing Customers</i>	205
<i>Enhance Relationship with Other Businesses</i>	205
<i>Referral Fees</i>	205
When <i>Not</i> to Make Referrals	206

21	You Can Accomplish More by Subcontracting Some Work to Others	207
	Subcontracting Is a Well-Established Business Practice	208
	Subcontracting Versus Referrals	209
	Advantages for Your Customers and for You	210
	Some Other Things to Consider About Subcontracting	210
	Selecting a Subcontractor	212
	Contracting Out	214
22	Hiring an Employee—The Traditional First Expansion Step	217
	Before You Hire	218
	What Will the Employee Do?	219
	Recruiting the Best Employee	221
	Responsibilities as an Employer	222
	Sorry, It Just Didn't Work Out	224
	<i>Termination Without Notice</i>	224
	<i>Termination with Notice</i>	224
23	A Joint Venture Is Like Living Common Law	227
	What Is a Joint Venture?	227
	What a Joint Venture Does for Its Members	228
	Locating Venture Partners	230
	Maintaining a Joint Venture	231
	Ending a Joint Venture	232
	<i>One Party May Buy the Other Out</i>	232
	<i>One or Both Parties May Sell to a Third Party</i>	232
	<i>The Parties May Agree to Dissolve the Venture</i>	232
24	A Merger Is a Marriage of Two Businesses	235
	What Is a Merger?	236
	Purchase Another Business And Combine It with Yours	236
	<i>Its Ability to Look After Customers</i>	237
	<i>An Established Customer Base</i>	237
	Merge with Another Business, or 1 + 1 = 1	237
	Potential Merger Partners	238
	The Merger Process	238
	<i>Serving Your Customers</i>	238
	<i>What You Want</i>	239
	What Each Partner Brings to the Merger	239
	A Merger Checklist	241

Part 5: Keeping Your Business Going or Selling It	245
25 Keep Fit for a Healthy Business	247
If You Plan to Go the Distance, Look After Yourself	247
Exercise: Even a Little Helps	248
Eating Healthy	248
You Deserve a Break	250
Do You Love What You Are Doing?	251
If You Don't Love What You Are Doing...Change Something . . .	252
26 To Survive, Your Business Needs Cash Flow	255
Manage Your Cash	255
Managing Cash Inflow	256
Managing Your Cash Outflows	259
Need More Money?	259
27 Transform Your Business to Cope with a Changing World	261
When Everything Around You Is Changing	261
When You Initiate Changes	263
Watch Where You Want to Go, Not Where You've Been.	264
So Where Do You Want to Go?	265
You Can't Get There Alone	266
<i>Work with Your Customers</i>	267
<i>Involve Employees</i>	268
28 You'll Need a Plan to Get Out of Your Business	271
Planning an Exit?	271
Choosing Your Successors	273
<i>The Family Business</i>	273
<i>Employee Purchase</i>	274
<i>Sale to a Third Party</i>	275
Winding Up Your Business	276
Don't Just Sit There, Do Something	277
<i>Are You Ready to Start Your Own Business?</i>	277
<i>Are You Ready for More Business for Your Existing Business?</i>	277
<i>Are You Ready to Expand Your Business?</i>	278
<i>Are You Ready to Get Out of Your Business and Move On?</i>	278
Appendices	
A Glossary of Terms	279
B Government Information and Contacts: Registration and Employment Standards Requirements	281
C Canadian Books for Small Business	297
Index	297

Foreword

You have a dream. It's a vision of the future that gives you a warm glow of contentment. Close your eyes and you can see it now: there you are, running your own business. No one is barking deadlines at you, or dishing out orders. *You* are in charge. You have created your own small company, with dozens of smiling customers handing you large sums of money, just for doing something you love to do. Happiness, prestige, and financial well-being are yours.

Now wake up! The cold hard light of day is shining and something ugly is staring you in the face. Running a successful small business is not easy. If it was, most wouldn't fail the way they do.

The sad fact is, the people who may buy your goods or services don't make decisions based on whether or not it will help you achieve your goals. They want value at the right price—and are likely to have little to no appreciation of the charm of buying from someone who just started their own business.

Dreams *do* come true, though—and Larry Easto knows how. In this thorough and practical guide, he blows away the clouds and lays out a foundation on which a solid business can be built. He starts by helping you to set realistic expectations, and includes a questionnaire by which to evaluate your own entrepreneurial instincts. Then he takes you step by step through the process of designing, building and running your company.

You'll meet Nancy and her computer assistance service, Lorne and his home-video production company, as well as a variety of other small entrepreneurs who are grappling with the same kinds of decisions you may face. There are loads of examples here from which to learn.

And most importantly, to my mind, Mr. Easto doesn't mince words about the difficult issues that the would-be businessperson must resolve. Going into business with family members can be a headache. Partnerships are tricky. Friends who invest in your business expect to get their money back even if your business fails. It's up to you to find ways to beat your competition, find new customers, get financing, and hire the right people. Fortunately, the details of how to handle these issues are laid out, chapter by chapter.

How I wish some of the entrepreneurs we've featured on *Venture* had read this book before they started out! The business program I host on CBC Television has covered hundreds of start-ups over the years, some of which were incredibly successful, some of which crumbled and collapsed. What factors produce success? Those who invest the time and effort in researching the marketplace and planning their business definitely improve their chances. (Every now and then a complete dreamer lucks out with a fabulous idea and makes it big, even while being completely unprepared, but those cases are rare—plus, do you really want to gamble with your life savings?)

So do your homework. Take this book, add your business idea and make it happen. Being able to put 'President and CEO' after your name doesn't have to be only a dream!

DIANNE BUCKNER, host of CBC's *Venture*

Introduction

Small business is booming.

According to Statistics Canada, there are approximately two million Canadian businesses that employ fewer than twenty people. Collectively, these businesses contribute more than \$50 billion to the economy.

Not surprisingly, organizations from public, private, and not-for-profit sectors are all eager to support small business. Governments at all levels provide a wealth of advice and information (but no money) for business startups and new businesses. This support is offered in the interest of keeping the economy growing. Private sector organizations—businesses ranging from IBM to your neighbourhood home-based bookkeeper—provide free advice and information in the hope that small business owners will reciprocate this kindness by purchasing their goods and services. Not-for-profit organizations—such as educational institutions and charities—provide information and training as part of their educational mandate and also to generate some much-needed revenue.

Clearly, there is no shortage of advice and information for actual or potential owners of small businesses. This being the case, why bother writing this book?

Why This Book?

Although there is a wealth of support available for small businesses, most of it is information driven. It usually takes the form of loads of standard dry information presented in print, electronic form, or in personal presentations. In many cases, it's like receiving a load of topsoil for your new garden. Like the topsoil before a new gardener, information is dumped in front of the potential or new business owner. Just because it's available, it doesn't necessarily mean that the wannabe gardener or business owner knows what to do with it.

Instead of simply adding more information to the pile, this book is intended to help you learn the skills that you need to succeed in your own business. And these skills are based on what owners of small businesses actually do, not modified versions of practices followed by big business organizations.

I have also tried to recognize the reality that most successful small businesses are unique: They reflect the individual personalities of their respective owners. In practice, this means that the book is relatively free of "shoulds" and "oughts." There are no directives telling you that you should follow a specific formula for developing your business plan, or that you ought to set up your financial forecasts to meet the exacting standards of the auditor general. In running your own business, you inevitably modify generally accepted

business principles to meet your own needs and wants. That same approach is part of the philosophy behind the book.

Regardless of your interest in small business, I hope this book is as helpful as I intended it to be. Read, use, and enjoy!

How to Use This Book

The book is a comprehensive reference for all small businesses, regardless of size or maturity. It is divided into five parts, each of which deals with a separate stage in the life of your business, from pre-startup to windup.

Part 1, “Before You Start,” helps you to look at personal considerations involved with running a business, such as your own entrepreneurial attitude and the possible involvement of your family. It also helps you decide what you will sell in your business and whether it’s best for you to start from scratch or buy an existing business or franchise.

Part 2, “On Your Mark,” will get you ready to go once you have decided to run your own business. It will help you identify what you need to get into business: the material items, plans, money, and know-how necessary for success.

Part 3, “Growing Your Business,” tells you everything that you will need to know about marketing your goods and services. Whether you are just starting your business or are looking for more business for your existing small business, this part will help you attract and retain customers.

Part 4, “Expanding Your Business,” is your guide to adding resources to increase your ability to serve customers. And hiring more staff is not always the best way to expand your business. You can make referrals, subcontract work, enter into joint ventures, or merge your business with another one.

Part 5, “Keeping Your Business Going or Selling It,” recognizes two realities of running a business. First, it takes energy and good health to continue to operate a business. And second, there comes a time when the owner must get out of the business. This material will help you keep your business going; or, once you have decided it is time to leave, help you to extricate yourself from your business.

Thinking of Running a Business?

Skim the book from start to finish. If, after you have reviewed the contents, you get excited enough about the prospect of running your own business to take the plunge, reread Parts 1, 2, and 3. This time, read the material carefully, answering all of the questions as thoroughly as you can. Once you have completed your business and marketing plans, put the book aside to concentrate on implementing your plans. Keep the book handy as a reference as you develop your business.

If, however, after skimming the material you decide that running your own business is not really right for you, put the book aside and get on with your life as an employee. The good news is that your interest in running your own business has only cost you the purchase price of this book and the time you spent reading it. You will not have lost any money trying to get a business going, only to find out that that approach to earning a living is not right for you.

Like to Expand Your Existing Business?

All businesses, whether new or old, need more business. Part III, "Growing Your Business," will help you develop more business. Because marketing is so important to small businesses, this is the biggest part, containing nine chapters. Although especially useful for newer businesses, these marketing chapters offer help to all businesses, regardless of how big or how old they are.

And to make sure that you can handle the avalanche of new work that will come from your marketing activities, take a look at Part 4. This will help you to start thinking about how you can expand your business.

When you have so many customers that you need help looking after them, check out Part 4. This part offers five alternative approaches to expanding your business. And you thought your only option was to hire staff!

Having Trouble Keeping Your Business Going?

Maybe you no longer have the energy or the interest to keep your business going. Or maybe cash flow problems are driving you crazy. Or perhaps the time has come for you to get out of your business. Part 5 will help, whether the problem is personal energy and motivation or cash flow difficulties, or if it is just the right time to cash in your chips and move on.

As a comprehensive reference, this book will help all small business owners, from pre-startup through growth and expansion to sale or windup.

Although intended primarily for small business owners, this book will also be useful to everyone who knows anybody who runs a small business. Whether you are a family member, employee, customer, supplier, or simply an interested observer, you can use this book to help you understand the growing small business phenomenon. Who knows? Once you understand what they do, there is no telling how you can help small business owners.

Extras

The Complete Idiot's Guide® to Small Business for Canadians presents tips and advice. Throughout the book these elements enhance your knowledge, provide examples, or highlight important pitfalls to avoid.



Shop Talk

"Shop Talk" boxes contain stories about my own and other people's experiences in running a business. They are designed to illustrate an important point made in the text.



Entrepreneur Beware

"Entrepreneur Beware" boxes provide warnings of risks or dangers to be avoided. By heeding these warnings, you can avoid a great deal of trouble.



Building Block

A "Building Block" is an important point to remember. Remembering these points will help make your life a lot easier.



Hot Tip

A "Hot Tip" is a fast tip that will also help simplify your life as a business owner.

Acknowledgments

Like all books, this one owes its existence to the contributions of many people. First there are the hundreds of small business owners who have continued to help me learn about the many aspects of running your own business. Next there are those book-loving people who help turn the idea for a book into something tangible. It is nothing short of fabulous to work with editors and other production people who share the author's commitment to the book. Heartfelt thanks to all who worked on this book, especially to Paul Woods who worked so hard to help make Prentice Hall the new home for this book.

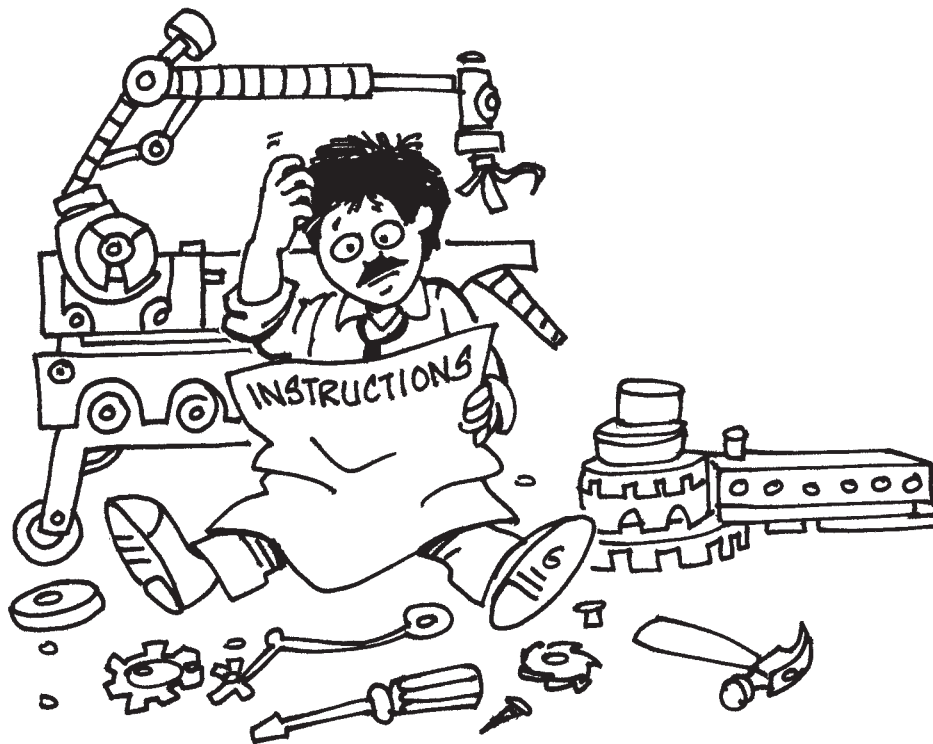
And of course there is the ongoing family support. Once again my wife endured my total immersion in writing a book. Thank you, Connie. Special thanks to my daughter Megan, who made a major contribution to the material at the back of the book: the list of Canadian Small Business Books and as a newly qualified archivist, she prepared the index.

In recognition of her life-long love of books and her new Masters of Information Studies (U of T '00) it is my pleasure to dedicate this book to our daughter Megan.

Part 1

Before You Start

Starting a business is not an impulse decision. Obviously you must consider the predictable issues regarding the business itself. But you must also consider a variety of personal, family, and legal issues before making your decision.





So You Want to Run Your Own Business?

In This Chapter

- ▶ Earning a living
- ▶ Reasons for choosing to start a business
- ▶ Ways to get started while working at a full-time job
- ▶ How *not* to get started
- ▶ Find out if you are the entrepreneurial type

The grass is always greener on the other side of the fence. Many employees envy self-employed people, believing that when you run your own business, you can earn more money. Although earning a livelihood is certainly the primary reason for starting and running a business, most small business owners also have personal reasons for choosing the self-employment option.

Attracted by the benefits that they see arising from eventually being on their own, many people start a business as a hobby; others make a part-time commitment to their own business. In both cases, they continue to rely on the regular income of their full-time employment.

Realistically, not everyone can succeed in running a business. Before starting your own business, it is important to identify what results you hope to achieve. It is also important to assess your entrepreneurial orientation and decide if running your own business is really the best thing for you.

You Need to Earn a Living

Businesses, large or small, exist to generate a profit for their owners. Business owners—whether shareholders in the case of large incorporated ventures (see Chapter 5 for a discussion of incorporation) or owner-operators in the case of small businesses—use these profits as a means of supporting themselves and others for whom they are responsible. Thus, the primary *raison d'être* for all businesses is to earn a livelihood for their respective owners.

If you already do, or think you would like to, run your own small business, you may have various reasons for choosing self-employment as a strategy for earning a living. Maybe you lost your job as a result of downsizing, reorganization, or merger, and chose running your own business as the best choice for generating an income. Perhaps you find it too confining being an employee in an organization whose way of doing things is inconsistent and even irreconcilable with yours. More independence? Higher earning capability? Whatever. Regardless of an individual's stated reason for choosing to run a small business, the bottom line is always the same: *Small businesses exist primarily to allow their owners to earn a living.*

There Are Also Personal Reasons

Even though all businesses, large and small, exist for the same reason, all businesses are not alike. Small businesses are not miniature versions of their big business cousins. There are many differences, the main one being who actually owns the company.

As noted above, virtually all large businesses are incorporated, which means they are actually owned by their shareholders. In companies with a large number of shareholders, the ownership and management functions are separated. Most shareholders are more than willing to delegate responsibility for actually running or operating the business to paid managers, who may or may not be shareholders. It is the managers who set the direction for the business and look after its day-to-day operations. In discharging these responsibilities, the managers try to do what's best for the shareholders. For shareholders as owners, their primary interest in the business is their only interest: generating income. Thus, what's best for the shareholders is, purely and simply, higher profits.

There is no comparable separation of ownership and management in small businesses. In most cases, the owners do it all, from long-term planning to day-to-day management. In discharging these responsibilities, instead of being guided by what is best for third-party shareholders, the owners are influenced by what is best for them. And what is best for owners of small businesses is not always higher profits.

Small businesses can be—and usually are—vehicles by which their owners can experience satisfaction, recognition, and joy, things that we all need if we are to live healthy lives.

In practice, this means that as well as existing to allow their owners to earn a living, small businesses also help their owners achieve personal, nonfinancial goals. Essentially

these goals represent results or desired outcomes that the individual owners would like to achieve. Examples of goals that can be achieved through running one's own business include the following:

- Earning specific awards or peer recognition;
- Showcasing your abilities;
- Doing what you love doing;
- Making a difference in the community;
- Maintaining an enriching relationship with spouse and family;
- Meeting new people;
- Improving the quality of service to clients;
- Developing new ways of doing things.

If you currently run your own business, think about why you started it. If you are thinking about starting your own business, what goals do you hope to achieve?



Building Block

Just as there are many reasons for choosing to earn a livelihood by running a small business, there are many benefits that owners can expect from their businesses. Obviously a decent income is important. But so is the satisfaction of doing a good job. We also appreciate the recognition of others for our efforts and, above all, the joy of achieving our goals. These are some of the joys that owners commonly report receiving from their small businesses.

Are You Playing Business? The Business-Hobbyist

Many people are attracted to the idea of running their own business. They like the idea of doing their own thing, a term left over from the '60s, which generally means being one's own boss. Instead of choosing to run a business as a strategy for earning a living, they start businesses primarily for other goal-oriented reasons, some of which are listed above.

The Problem with Business-Hobbyists

Much like a hobby generates pleasure and satisfaction for the person doing it, so does playing business. In most cases, playing business is a harmless activity. There are, however, two areas of difficulty that might arise for business-hobbyists.



Entrepreneur Beware

Unless you have better-than-average financial management skills, don't start your own business just to make money. Get a job that pays you well, and invest your money wisely. This approach will ultimately allow you to generate more wealth.

At least superficially, the business hobbyist has an unfair advantage over the competition. Unencumbered by the normal economic constraints of running a business, the business-hobbyist is free to do work for no or low cost to customers. For these people, simply doing the work is more important than getting paid for doing it. If they don't have to support themselves and their families from business activities, there is no urgency in getting paid the market rate for the services.



Shop Talk

I have a relative who, when announcing his business, described it as "a new business without a business plan." He was really proud of his newly developed Web site. The site listed three technical-related service areas in which he had expertise but failed to identify targeted clients and how they might benefit from these services.

The real purpose of his so-called business activity was not to earn a living for himself. The primary purpose of the Web site was to showcase his technical talents, much like a portfolio. Presumably, dressing the portfolio as a business activity enhanced its credibility.

In effect, my relative was doing little more than "playing business," just as children play house or play school.

Providing services at a cost significantly lower than the competition has two problematic side effects. First, it brings into question the cost and value of comparable services provided by other businesses that must build overhead and livelihood expectations into their pricing. Clients are generally more concerned with what something costs them, than with what it costs the supplier to produce it. Thus, when they see one supplier providing a specific service at a price significantly lower than the competition, they assume that the competitors must be overcharging. Based on a totally erroneous interpretation of the data, they develop unwarranted negative perceptions of the business.

Further, in order to stay competitive and protect their market share, the competition might be forced to lower its prices to match those of the business-hobbyist. Although this may be a good thing for customers, price competition by hobbyists seldom benefits suppliers. When prices are cut, profits and customer service also decline. More than one business has been forced to close its doors as a victim of price-cutting wars. Obviously, the presence of a few business-hobbyists in a market segment is unlikely to affect the price of the services of established competitors. However, the appearance of many business-hobbyists will probably reduce the prices, profitability, and service of full-time businesses providing comparable services.

The second area of difficulty involves the liability of the business-hobbyist. Once you start a business, especially providing services, you hold yourself out to the public as having specific skills. In delivering these skills, you are expected to meet the standards of other businesses offering the same skills. If a failure to meet these standards results in a customer suffering loss or damage, you are responsible for the loss or damage. You cannot escape this liability by saying that what you called a business was not really a business but was more like a hobby.

Assume, for example, that a business-hobbyist is approached by the owner of Wayne's Widgets, who would like a Web site designed to facilitate sales over the Internet. After the site is up and running and widgets have been shipped, several purchasers report that their credit card numbers have been misused and the common factor appears to be that they all purchased widgets through Wayne's Internet Web site. Investigation indicates that a hacker gained access to Wayne's Web site and located the database where customer information, including their credit card numbers, was stored. Further investigation indicated that in designing the Web site, the business-hobbyist had neglected to block access to a key directory as instructed in the manual.

Clearly the theft of the credit card numbers arose as a result of negligence on the part of the person who designed Web sites as a hobby. Does the fact that this work was done through a business that was in fact a hobby reduce or eliminate liability for the Web site designer? Of course not! Why should it? Why should a business-hobbyist be any less liable for the consequences of actions than a fully committed business owner?

A Part-Time Business and a Full-Time Job

If you are interested in running your own business, but are not yet ready to make a full-time commitment, starting a part-time business is a better approach than starting a business as a hobby. The difference between a part-time business and a *full-time business* is the extent of the commitment. Starting a part-time business is different from running a *hobby business* because you commit to a part-time business whatever



Entrepreneur Beware

If you play business, you are responsible for any damages that your customers might suffer as result of doing business with you.



Hot Tip

In starting and running a part-time business, the same considerations apply as those for running a full-time business. This includes all aspects from preparing a business plan to generating more business. Simply modify the budgets and forecasts to reflect the reduced time and financial commitment.



Hot Tip

In a part-time business, compete on the basis of value instead of cost. Anyone can attract business by offering lower prices. Charging competitive prices can show how successful you might be in running your own business. If you offer deeply discounted rates, you don't know if clients will continue to deal with you when you start charging the rates you need to survive over the long term. On the other hand, if you charge market rates and customers continue to come back to you, you can expect to succeed over the long term.



Building Block

Starting and running your own business is a full-time commitment. In many cases, business owners work harder and more is expected of them than when they were employees. The good news for most, however, is that we love what we are doing more than we could ever enjoy working for someone else. Although not always easy, running one's own business is usually an all-consuming and very satisfying way of earning a living.

resources—time, energy, money, etc.—that you have available and that are necessary to get the business up and running.

Even though you are running a business on a part-time basis, make sure that the rates you charge for your goods and services are comparable to those of your competitors. There are several reasons for this. The quality of these goods and services are at least as good as or even better than your competitors'. If they weren't, you wouldn't even consider offering them for sale, would you? Since they are comparable, why should they be offered at a lower cost? To offer them at a lower cost might suggest that you and your business are not quite as good as the competition.

Running a part-time business is a no-lose scenario. If you start the business on a part-time basis and it becomes successful enough that you are prepared to operate it full time...congratulations! You are off and rolling. If, however, you gave it your best shot and found out it's not what you want to do, no problem—you still have your regular job to fall back on.

How Entrepreneurial Are You Anyway?

Once you have decided that you would like to run your own business, the next step is to determine whether or not you possess suitable personal characteristics. The following self-assessment can help you determine your entrepreneurial orientation.

Entrepreneurial Assessment

The following questions deal with your personal background, behavioural characteristics, and lifestyle patterns. Answer the questions by marking the response that most accurately reflects your attitude. Answer every question as honestly as you can.

Part 1: Attitudes Toward Risk Taking

	Definitely Yes	Probably Yes	Probably No	Definitely No
1. I am prepared to make sacrifices in my family life and to take a cut in pay to succeed in my own business.	_____	_____	_____	_____
2. I take risks for the thrill of it.	_____	_____	_____	_____
3. I enjoy doing something just to prove that I can.	_____	_____	_____	_____
4. I enjoy tackling a task without knowing all the potential problems.	_____	_____	_____	_____

Part 2: Personal Initiative and Discipline

	Definitely Yes	Probably Yes	Probably No	Definitely No
5. Once I decide to do something, I will do it and nothing can stop me.	_____	_____	_____	_____
6. When I begin a task, I set clear goals and objectives for myself.	_____	_____	_____	_____
7. After a severe setback in a project, I am able to pick up the pieces and start over again.	_____	_____	_____	_____
8. I am usually able to come up with more than one way to solve a problem.	_____	_____	_____	_____
9. I believe in organizing my tasks before getting started.	_____	_____	_____	_____
10. I find myself constantly thinking up new ideas.	_____	_____	_____	_____
11. I can concentrate on one subject for extended periods of time.	_____	_____	_____	_____
12. I find unexpected energy resources as I tackle things I like.	_____	_____	_____	_____
13. I am likely to work long hours to accomplish a goal.	_____	_____	_____	_____

Part 3: General Attitudes

	Definitely Yes	Probably Yes	Probably No	Definitely No
14. When I do a good job, I am satisfied in knowing personally that the job has been well done.	_____	_____	_____	_____
15. I like the feeling of being in charge.	_____	_____	_____	_____
16. When I think of the future, I envision myself running my own business.	_____	_____	_____	_____
17. I try to do a better job than is expected of me.	_____	_____	_____	_____
18. Personal satisfaction means more to me than having money to spend on myself.	_____	_____	_____	_____
19. I try to find the benefits in a bad situation.	_____	_____	_____	_____
20. I persist when others tell me it can't be done.	_____	_____	_____	_____
21. I enjoy being able to make my own decisions on the job.	_____	_____	_____	_____
22. I can accept failure without admitting defeat.	_____	_____	_____	_____
23. I strive to use past mistakes as learning processes.	_____	_____	_____	_____
24. I find that answers to problems come out of nowhere.	_____	_____	_____	_____
25. I prefer to make final decisions on my own.	_____	_____	_____	_____

Scoring:

4 points for each question answered "Definitely yes"

3 points for each question answered "Probably yes"

2 points for each question answered "Probably no"

1 point for each question answered "Definitely no"

Interpretation of your score:

Above 75 Definitely Entrepreneurial

Your combination of personal background and behaviour and lifestyle patterns should give you the basis for a successful business.

50–74 Possibly Entrepreneurial

You might have the basis for succeeding in your own business. The process of preparing your business plan can help clarify your entrepreneurial orientation. If the information that you gather excites you about the prospect of running your own business, you will probably do well. On the other hand, if the prospect of running your own business scares you, think carefully about whether or not to proceed.

26–49 Probably Not Entrepreneurial

Other possibilities may be more suitable for you.

Under 25 Definitely Not Entrepreneurial

This is self-explanatory; you will probably work best as an employee.



Hot Tip

Regardless of your score, discuss the results with your personal contacts, primarily your family and closest friends. They may see a side of you that you do not see. Their comments, combined with your score on the assessment, will provide you with a very good indication of success in your own business.

The Least You Need to Know

- The primary purpose of running your own business is to earn a living.
- Personal goals can be as important as earning a living. These reasons have more to do with personal satisfaction than achieving financial goals.
- Playing business is not a good way to get into business. It can pose some risks for you as well as for full-time competitors in the marketplace.
- Running a business is a full-time commitment.
- Not everyone has an entrepreneurial orientation. Some people function better as employees.



The Family That Works Together Sometimes Works

In This Chapter

- ▶ Where does the money come from?
- ▶ What to expect financially
- ▶ Putting family in your business—or not
- ▶ Ownership, management, and family issues

How do you plan to finance your business startup? If you are like most new business owners, you will draw on personal and family savings to pay the startup expenses and keep the business going until the cash starts to flow in. Although this is a very reasonable and common approach, it will affect your family's normal activities. In most cases, this will mean your family having less, rather than more money available, at least for a while. Obviously, it is important to prepare your family for this eventuality and plan accordingly.

Your new business will consume more than just money: It will also absorb as much time and energy as you are prepared to devote to it. Like the money that you invest in your business, the time and energy that the business consumes is unavailable for family purposes. For some families, this is not a problem because other family members play active roles in the business.



Building Block

Whether actively involved or not, all family members are affected by the startup of a new business. To minimize disruption, it is important to understand that family and business cannot be fully integrated. Many issues apply to managing the business that do not apply to maintaining a family and vice versa. Identify these issues and resolve any problems before either the business or the family life is jeopardized.



Entrepreneur Beware

Lifestyle changes that come from starting up a business usually have to do with having less money available. For the sake of family harmony, make sure all family members are aware of what is happening and how long the situation is likely to last. You are more likely to get the support of your family if they know sooner, rather than later, about the demands the business will make on the family's financial resources. It is difficult to succeed in running your own business; don't make it any harder by jeopardizing the support of your family.

Family Money Becomes a Business Asset

Business ventures, like all human endeavours, give rise to numerous clichés. From the business perspective, “it takes money to make money” is particularly annoying because it is so true. Certainly the primary purpose of a business is to generate revenue. Just as certainly, you must spend money to generate this revenue.

Virtually all owners spend their own, or their family's, money to start their businesses. Personal or family funds that are allocated for business purposes are obviously not available for family use until the business is profitable enough to return the owner's initial startup investment. With fewer funds available for the family, it may be necessary to make a lifestyle change.

The Cash Flow Roller Coaster

It's not just at startup time that owners will be required to contribute money to their business operations. Few businesses experience consistent cash flow. For most, there are periods when cash floods in. For retailers, it's the Christmas season; for the accounting profession, it's tax season. Conversely, there are periods when cash flow is more like a trickle. These are the times when everyone except creditors appear to have forgotten that the business exists. More money is going out than is coming in.

Without a bank line of credit, this money will come from—where else? —the owner's personal resources. Once again, money going into the business will be temporarily, perhaps permanently, unavailable for family or personal purposes. Members of your family should be forewarned that this situation might occur. Unless you have had the foresight to make provisions for a dry season, any shortfall must be covered by personal funds. If, as an employee, you customarily took a vacation during spring break you might have to change your plans if February and March are cash-trickle months.

What You Give to Your Business Takes from Your Family

Running your own business can consume an inordinate amount of time, attention, and energy. As well as the obvious time spent—the time that you actually run the business—there is the time you spend thinking and worrying about it. Few owners can completely forget about their businesses, regardless of how hard they try.

Like money, your time, attention, and energy are limited resources. Also like money, whatever is allocated for business purposes is unavailable for family or personal enjoyment. Make sure your family knows about and is supportive of the new demands on your time.

Can I Please Use the Computer?

As well as financial and personal resources, your new business might also require the use of other family assets such as the computer, the car, or even some space in the family home. The good news here is that part of acquiring and maintaining these assets can be claimed as an expense for tax purposes. In other words, you can write off (over time) part of the cost of any family assets used for business purposes.

The bad news is that instead of writing off the entire cost of the assets, you can only write off the percentage of use that corresponds to actual business use. Similarly, if you use part of the home for business purposes, you can claim a portion of the home occupancy expenses as an expense for tax purposes. Your tax return contains a schedule that allows you to calculate allowable claims for business use of automobiles and home offices. The really bad news is that you must maintain detailed records to support these claims. In most cases, the actual tax savings are minimal.



Hot Tip

To minimize the disruption in personal or family cash flows arrange a bank line of credit before you need it. As with all bank financing, it is easier to obtain these services when you don't need them than when you do.



Hot Tip

To balance your time between your business and your family, designate a set period every week (such as Friday night or Sunday morning) that you will spend with your family, away from tending to business matters. Treat this as a commitment as important as a regular meeting with clients. Not only will it contribute to domestic harmony, but it will also give you a break from your business, allowing you to be more refreshed when you resume.

Do Family Members Belong in Your Business?

Family Members as Employees

When business owners look for help, they frequently look first to members of their own family. This approach yields several benefits. It keeps money in the family. The owner can transfer money to family members and claim the transfer as a deduction for income tax purposes. Further, these related employees can probably be available for as much or as little time as required.

Unfortunately, relatives do not always make the best employees. They may lack the requisite skills and interest to perform required tasks.



Entrepreneur Beware

Tax considerations aside, using personal and family assets for both business and personal purposes invariably requires family discussion and agreement about when the assets will and will not be available for family use. Provided you have your family's agreement and cooperation, there need not be a problem in using family assets for business or vice versa.



Shop Talk

When I started my own law practice, we agreed that my wife would look after the bookkeeping. After the first month-end, it was obvious that the plan would not work. Instead of just following the time-honoured practice of entering the debits on the left and the credits on the right, my wife wanted to know *why* they went there. As a result of our heated discussions about the principles of bookkeeping, we soon learned two things. First, routine clerical tasks are not really meant for inquiring minds. And second, my wife's participation in my business was far too frustrating for both of us. My secretary assumed bookkeeping responsibilities while my wife temporarily resumed looking after our children until she returned to work in a position more suited to her skills and interests.

Family Members as Owners

As well as hiring family members as employees, it is also common to include them in the ownership and management of small businesses. Statistics Canada reports that there are approximately one million family-operated businesses in Canada.

Family businesses are not a new phenomenon. The very first small businesses, in pre-Industrial times, were small agricultural or craft-type concerns, in which family members were active workers. At that time, the businesses were owned and operated by the husband or father with all other family members simply doing what they were told.

As a result of the changes that have taken place over the past few hundred years, today's family businesses have evolved far beyond the early agricultural and craft-based models. Today's family businesses tend to be more cooperative and less dictatorial, with family members playing more active roles in the ownership and operation.

Assuming that family members have the requisite interest and skills, there are sound reasons for operating a family business. Firstly, there is an existing bond among family members that could facilitate their working together in pursuit of a common mutually beneficial goal. It is often difficult to have employees commit to specific business goals. Provided family members can agree on what they want the business to achieve, it should be fairly easy for them to commit to achieving these goals.

Secondly, family businesses make it possible to keep things in the family. Obviously, profits that are shared among family members, rather than among nonfamily owners, will yield more income to the family. Family members might also be better at keeping secrets and maintaining confidentiality than nonfamily employees.

It is often difficult for business owners to share control with others. Fiercely independent, they sometimes find it difficult to share or delegate responsibility for making things happen and for keeping things going. In family businesses, with control shared among family members, owners do not really feel that they are giving up control.

A major benefit of family businesses is the simplification of succession planning. For small business purposes, succession planning is all about planning who will operate the business when the current owner retires or, due to poor health, cannot continue to run it. With family members actively involved in running the business, it should be a relatively smooth transition from one family owner to the next. This will benefit owners, customers, suppliers, and nonfamily employees. Being familiar with how the business is run, relatives are unlikely to introduce disruptive practices when they assume responsibility for operating the family business.

There are also sound reasons for not starting a family business. If one or more family members has no interest in participating in the business or lacks the appropriate skills to make a worthwhile contribution, no one will benefit from this family participation. Don't assume that just because you are very excited about your business that your family will share this excitement. Before counting on family members' participation in the business, make sure that they are genuinely interested and can make valuable contributions.



Shop Talk

As much as you may enjoy being with your family, too much togetherness could be counter-productive. Idiosyncrasies that can be easily ignored if we spend time apart, become major annoyances if we spend twenty-four hours a day with family members. One of our daughters, whose company we quite enjoy, has the annoying habit of cracking her knuckles. Since she no longer lives with us, we can tolerate her knuckle cracking when she comes to visit.

Last year when she stayed with us for a while, I became less and less tolerant of her noisy behaviour with each passing day. Although we were sad to see her go off on a working holiday, I was delighted that I wouldn't hear her knuckles cracking. I found it almost impossible to tolerate the sound of cracking knuckles, whether or not I was working.

Also, when family members work together, there is a tendency for domestic issues to spill over into the work situation and vice versa. One of the good things about working away from home is that it helps separate home and family. If, for example, you have a dispute with your spouse or partner over something as trivial as leaving the top off the toothpaste tube, a day apart will help both of you forget about the issue. On the other hand, if you spend the day together working, the normal pressures of running a business can help escalate a nonissue into a disagreement. Ordinarily minor work annoyances, such as the printer cartridge running out of ink, can ignite into a major conflict that would otherwise have been ignored and forgotten. Domestic differences and business problems can be a very toxic combination.

Another area of concern is the difference in our relationships with family and co-workers or employees. Some people treat their family with more respect than they do co-workers. Conversely, co-workers may see the agreeable people-pleasing sides of our personalities while we reserve our ugliness and nastiness for family viewing only. This can be problematic if family members believe that employees receive more favoured treatment or if employees perceive that relatives are being treated better than they are. Realistically, it is difficult to treat family members—whether owners or employees—the same as nonfamily employees. The relationship with each group of people is, after all, quite different.

Perhaps one of the biggest difficulties with involving family members in the business is the risk associated with putting all of your eggs in one basket. When there are serious cash flow problems, owners frequently cut back on the money that they and their family members take from the business. When this happens, the family income will be severely restricted, even temporarily suspended. If, however, family income comes from sources

unrelated to the business, the consequences of a business cash flow problem will be minimized. I have had countless clients who involved family members in the business to share the wealth during the good times, only to face the decimation of family income when cash was tight.

Divide and Manage

The challenges faced by family businesses go beyond the ownership and operating challenges that face all small businesses. They also go beyond the difficulty of balancing work and family, an issue that anyone who works and also has family responsibilities must face.

Family businesses represent the merging and integration of three kinds of critical issues: ownership, operation, and family. To make a family business work, and indeed succeed, family members must consider and resolve these issues.



Entrepreneur Beware

Husband-and-wife family businesses risk breaking up when the marriage breaks up. To minimize this risk, make sure that any business agreements include details about what will happen to the business in the event of a marriage breakup.

Ownership Issues

- Who actually owns the business?
- If ownership is shared, what is the interest of each owner? How is this interest determined? How is it valued?
- How was the ownership interest acquired? Was there an actual contribution of money? Was the ownership interest a gift? What tax issues arise as a result of making a gift of an ownership interest?
- Who has ultimate decision-making authority? What happens if joint owners cannot reach an agreement?
- What restrictions apply in dealing with the owners' interests? Can they sell their interests or pledge them as security for loans?
- What happens to the owners' interests in the event of a marriage breakup? What buy-sell provisions apply?
- How will ownership interests be transferred to other family members? When can these interests be transferred? Will they be transferred on death or on disability? How will the interest be valued?
- How will the owners share the profits? If bonuses will be paid, how will they be calculated and when will they be paid?

Management Issues

- What are the goals of the business? Are all family members committed to achieving these goals?
- Are there nonfamily directors or advisors?
- What is the role of each family member in the management and operation of the business?
- How will each family member be compensated for his or her contribution to the management and operation of the business?
- Will the next generation take over the business? Who, specifically, will take over? How will they be prepared to take over the business?
- How will family members get out of the business?
- How will loyal nonfamily employees be managed? What incentives will they be offered to ensure that they stay on with a transfer to the next generation?

Family Issues

- What will be done to ensure that family members remain interested in and committed to the business?
- How will the current generation's need for personal income be balanced with the next generation's need for equity in the business?
- How will family members who do not actively work in the business be treated equitably?
- How will spouses and in-laws who do not work in the business be treated?
- How frequently will family meetings be held to discuss and resolve these and other issues?

The Least You Need to Know

- Starting your own business may disrupt your normal cash flow; make sure your family is aware of this and be sure to make plans to deal with any potential cash shortfalls.
- Starting your own business can also be a major drain on your time and energy; again, make sure that your family is aware of this and make plans to deal with any potential problems.
- Employing family members in the business does not always work well for everyone. Try to maintain a balance between family and business activities.



What Can You Sell?

In This Chapter

- ▶ Selling your own and others' products
- ▶ Selling your services
- ▶ Different types of customers
- ▶ Small businesses are service driven
- ▶ Choosing a business that's right for you

Regardless of size, all businesses sell something. There is virtually no limit to the products and services that a small business can sell. At one extreme, people such as artists and craftspeople can produce and sell their own work. At the other end, sales agents and representatives will sell products manufactured by others. Today most businesses supply services, either to families and individuals or to other businesses and organizations.

Realistically, running your own business is not always fun or easy. There are many things about it that are really dull for most people. If you don't love what you are doing, the boring parts—the parts that aren't the main focus of your business but still need to be done—will drive you crazy. When deciding what you are going to sell, your challenge has two parts. The first part is to identify what you love doing; the second is to figure out a way to get customers to pay you for doing it.

Selling Your Own Work

Many manufacturing operations require too much capital or are too labour intensive to be viable options for small businesses. Producing large and expensive items such as automobiles and appliances requires a great deal of capital to support sophisticated manufacturing operations and skilled workers. Similarly, smaller items such as office supplies and kitchen accessories also require extensive capital and manufacturing facilities in order to mass produce low-price consumer goods and to market these items profitably. Whether expensive and sophisticated or low-cost and simple, the production of mass-market consumer goods is best left to large industrial organizations.

The production of unique specialty items, on the other hand, is ideally suited to small businesses. This would include such traditional artisan-type work as the design, production, and sale of clothes, jewellery, pottery, and other unique items. In each of these businesses, the quality of the work produced, and not the price, would be the unique selling feature. With effective marketing strategies, producers of these high-quality goods can be very successful.

Advantages of Selling Your Own Product

The big advantage to selling your own product is that you have total control over every step of the process, from design, through production and marketing, to delivery and the ultimate purchaser. This means that you can customize your product to meet your customers' needs and wants, and that you can do this at almost any stage of the process. It also ensures a higher level of consistency between a product's actual features and how the product is promoted to customers. Since you are producing and selling your work, the potential discrepancy between promotional claims and real-life features is eliminated.

Another advantage of selling your own product is the personal relationship that develops between producer and purchaser. To counter today's anonymous mass-market world, many of us like to buy items directly from the people who produced them. This is as true of specialty foods and books as it is of arts and crafts. This connection between purchaser and producer adds a personal element to the item, which in turn increases the customer's perceived value of what he or she bought. The perceived value is enhanced by the one-of-a-kind nature of personally produced items.

This illustrates another advantage of selling items that you produce yourself: They are unique. Unlike mass-produced standard items, there is nothing else exactly like them. Purchasers feel good about acquiring and owning items that presumably reflect their own unique personalities.

When customers feel good about a purchase, they will proudly talk about the item, and in doing so, will promote the producer to family, friends, and acquaintances. Customers who value what they have purchased are satisfied customers, the best asset any business can have. It really is true that word-of-mouth advertising is the best type of advertising.



Shop Talk

I continue to be amazed and delighted at how happy people are to receive a signed copy of one of my books. It is not uncommon for these people to promote my books to their friends and acquaintances. This is good promotional value, considering that all I did to earn it was to personalize a book by signing it and adding the purchaser's name. A similar process can work with other personally produced goods.

Disadvantages of Selling Your Own Product

There are three major disadvantages of selling goods that you produce yourself. First, because time is limited, there is a limit to the number of items that you can produce. This in turn restricts your sales and revenue potential. It is, of course, possible to hire help and expand your operation. This involves assuming supervisory and management tasks, responsibilities that might not be a welcome addition to your burden. Further, when other people are involved in the production of your work, some aspects will become standardized in the interests of efficiency. This can reduce the uniqueness of your work.



Shop Talk

Having published books myself and also having had books published by established publishers, I know firsthand the joy of passing a manuscript on to a publisher. For me, it means that someone else will look after editing, formatting, producing, and marketing, and will do all of those other things it takes to get the book into the hands of the reader.

The second drawback is that it is difficult to find repeat customers for the same nonconsumable items. In order to continue to sell to your satisfied customers, you must develop new items. Once they have one custom-made and personalized widget, they are unlikely to want or need more. You must then develop and produce gadgets, gizmos, or geegaws to sell to them.



Hot Tip

If you plan to sell goods that you produce yourself, focus on high-quality higher-priced items. This will help increase the marketability of your work and the profitability of your business. Customers seldom object to paying a premium for quality work.

The third problem is common to all people who work alone. It is the result of having total control of what you do: You have to do it all yourself. From design and manufacturing, to marketing and customer service, you have to do it all. This can be a frustrating and onerous responsibility.

Selling Items That Other People Produce

Many successful independent businesses distribute products manufactured by others. Typical businesses fit into the distribution chain in a variety of stages of the process, from purchasing directly from the manufacturer to purchasing from subdistributors and selling to the consumer. Examples of the items produced in these businesses include cosmetics, jewellery, cleaning supplies, and a great variety of other products.

A business can distribute products produced by others through a variety of operating formats. Wholesalers, distributors, and retailers purchase goods for resale. By selling goods at a higher price than their purchase price they generate revenue to cover the cost of goods purchased and to make a profit from their own work. These people must pay for the goods they purchase for resale, regardless of whether or not they succeed in reselling them.

A franchise operation is a common method of distributing goods. Franchises have been described as the most successful marketing concept ever created. A franchise organization is in fact a contractual association between a franchisor (the manufacturer or wholesaler) and the independent franchisees who purchase the right to distribute the franchisor's products.

An estimated 4500 franchisors provide a broad range of franchise opportunities in Canada. Many of the opportunities represent great potential for small business operators. Suitable service areas include beauty and health, business, computer, education, maintenance, photography, and publicity. Dozens of directories and handbooks are available in public libraries and bookstores that detail various franchise opportunities. These resources also outline what to look for and what to avoid when purchasing a franchise. The next chapter addresses the topic of franchising in greater detail.

Another growing trend is the use of multilevel marketing. As the name suggests, this involves a number of different levels of distributors. The manufacturer sells products to

a high-level distributor, who in turn resells the products to the next level of distributor. This lower level distributor sells to yet a lower level distributor, and so on. The purchasing and reselling continues until, ultimately, the products are sold to the end user. Examples of companies that use this multilevel marketing approach are Amway, Mary Kay Cosmetics, and Tupperware. Contemporary advancements in communications technology and services—such as overnight delivery from factory to home—increase the attractiveness and profitability of these businesses. As with franchises, there are a number of resources available to provide guidance with respect to these multilevel business opportunities.

Yet another approach to distribution, suitable for the small business format, is the use of representatives or agents who represent specific manufacturers or producers. These people never actually own the products that they sell. They take orders for the manufacturer or supplier and are paid a commission on their sales. Unless otherwise agreed, commissions are payable when the supplier receives payment for the goods sold.

Growing nostalgia has given new life to the expression that everything old is new again. Collecting and reselling anything that is old—furniture, jewellery, books, newspapers, trading cards, clothes, and so on—has become a major source of revenue for many people. Trading in nostalgia is ideally suited for small businesses. Not only is a fixed place of business unnecessary to sell the products, it is often restrictive. Shows, fairs, and other exhibition locations can be found at the nearest shopping centre, at downtown and suburban hotels, and at flea markets everywhere. The stock-in-trade is hauled from home (or storage) to the show, where it is set up and offered for sale. Unsold items are returned to home base to await the next sale. The management and administrative work is usually completed in home offices.



Entrepreneur Beware

Importing goods for sale in Canada can be risky. You might get stuck with the extra time and expense involved in looking after warranty problems without being reimbursed by the manufacturer or supplier.



Hot Tip

The fact that we now live in a global village means that regardless of where products are manufactured—locally, nationally, or internationally—they can usually be easily obtained for distribution by independent businesses. As with trading in nostalgia, opportunities to import or distribute products manufactured by others can be found in virtually any classified advertising section of any newspaper. Business opportunities can also be identified through leisure travel. Ideas and concepts that appear to be working effectively in distant locations can often be implemented domestically.

Advantages of Selling Items Produced by Others

By selling goods produced by others, you can avoid all of the manufacturing, and many marketing, responsibilities. Also, depending upon the agreement with the manufacturer, it might be possible to avoid responsibility for actually handling the goods.

Manufactured goods come with a guarantee. At the very least, the manufacturer guarantees that those goods are suitable for the purposes for which they are intended. Many manufacturers also guarantee the quality and performance of their products. In practice this means that if the goods are defective, they will be repaired or replaced at the manufacturer's expense. Thus, as reseller of the goods your role is to involve the manufacturer in the process of correcting the defect.

Since it is the manufacturer's goal to sell their goods, most provide some form of marketing support to businesses that sell their products. Typically, this support takes the form of national advertising and marketing communications.

In many cases, the manufacturer's goods are shipped directly from their premises to customers. This means that although you might sell goods produced by someone else, you do not necessarily have to handle the goods. This can result in significant savings regarding the handling of warehouse and related materials.

Disadvantages of Selling Items Produced by Others

Although selling goods produced by someone else might free you of legal responsibility for defective or unsuitable products, you will not be totally free of responsibility. If and when there are difficulties with any products that you sell, your customers will look to you for help in correcting the problem. After all, they don't know the manufacturer; they know you. Not surprisingly, you can find yourself caught in a dispute between your supplier and your customer. Regardless of who is right and who is wrong, this could well be a no-win position for you.

Supply Intangibles: Be a Service Provider

The service sector has experienced an extraordinary rate of growth over the past decade. During the last ten years, 94 per cent of all new jobs in North America were created by service industries: retailing, business and financial services, engineering and design, consulting, commercial education and training, communication, travel, and transportation.

Advantages of Being a Service Provider

The nature and delivery of services, especially those that are information-based, have changed dramatically with the advances and widespread availability of technology. We no longer need large factory-type office facilities equipped with huge computers to work

with information. With laptop computers and cellular-phone technology, we can gather, process, analyze, or do whatever we have to do with information at home, at our clients' places of business, or wherever we happen to be. This has greatly increased the flexibility of service providers.

For technologically oriented people, it has also opened up a broad and exciting range of new business opportunities, many of which didn't even exist five to ten years ago. If you have more than an average level of technical skill, undoubtedly there is a business opportunity for you. And unlike selling products, you do not have to worry about buying, storing, and otherwise handling inventory.

Disadvantages of Being a Service Provider

Attractive as it may be to provide services, there are several major disadvantages to consider. First, unlike consumer goods, services are intangible. The customer cannot see, taste, feel, hear, or smell them before making a purchase decision. Since many people traditionally make purchasing decisions based on their senses, service can be more difficult to sell.

Services are also perishable: They cannot be stored. This means that you cannot stockpile services in anticipation of future demand. Physicians cannot stockpile time so that they will have more of it to help patients in flu season. Accountants cannot put some of their unused summer availability into storage for use during tax time.

And finally, services are variable. The same service, such as hairstyling, varies from person to person. It also might vary depending on when it is performed. For example, if your stylist is sick or perhaps preoccupied, the work is unlikely to be as good as it would be otherwise.

Families and Individuals Need Services

These services are defined by the personal needs, wants, and expectations of the person or group of people (such as a family) to whom the service is being provided.

Traditionally, personal services have included mainly beauty- and fashion-related services such as hairstyling and makeup. Now, many successful businesses profitably provide services such as housekeeping, caregiving, home maintenance, and gardening.



Hot Tip

The small business format is ideal for providing personal services. Personal service businesses require a minimum amount of space and equipment and are based primarily on the personal skills and ability of the business operator.

Today's busy people often find themselves with more money than time. As a result, new service opportunities proliferate at a staggering rate.

And So Do Businesses and Other Organizations

Businesses and not-for-profit associations purchase services for one of two reasons. The first is the simplest and most basic: to meet their own day-to-day organizational needs, such as bookkeeping and other administrative activities. The second is to meet their customers' needs.

Services of the first type would include obtaining and delivering inventory and supplies, running errands, taking messages, maintaining books and records, and cleaning. All businesses require these operations to some extent; few require them on a full-time basis. An example of the second type is an advertising agency that hires a graphic artist to help design a brochure for a client.

Who Will Buy Your Goods or Services?

Obviously, it is not enough to provide goods and services. Someone must buy what you are offering for sale.

For the sake of simplicity, it is possible to classify customers as either "consumers," which include individuals, families, and other domestic arrangements, or "organizations," which include all customers who are not consumers. More specifically, public-sector organizations (governments), private sector organizations (businesses), and not-for-profit organizations such as educational institutions, charities, and voluntary associations comprise the organizations category.

The table on the next page illustrates a simple method of matching what you will sell and to whom you will sell it. It also includes examples of goods or services that might be offered to each category of customer.

These are only a few examples of the kinds of goods and services you can offer to different types of customers. They do, however, help illustrate two important features of today's small business world; that is, small businesses are service businesses, and some types of products and services are suitable for both classifications of customers.

Small Businesses Are Service Businesses

All small businesses are in some way service driven. Even though the first two categories in the table involve the sale of products, service is the critical element in each. There are two areas in which the service element can be found. The first is in the customization of products. Whether selling to consumers or organizations, people who produce the products that they sell can frequently customize these products to meet the needs and

Goods and Services Offered to Consumers

	Consumers (individuals and families)	Organizations (public, private, and not-for-profit organizations)
Goods that you produce	Arts, crafts, giftware Gourmet food products	Arts, crafts, giftware
Goods that others produce	Health and beauty products Household cleaning products and supplies Specialty products	Cleaning products and supplies Specialty products
Services	Career counselling Catering Closet organizing Dating service Decorating Exercise/fitness coaching Financial planning Health and beauty services Housekeeping/maid service Home inspecting Image consulting Landscape maintenance Party planning Personal shopping	Accounting/auditing Administrative support services Computer consulting Education/training Human resources services Interior designing Janitorial services Legal/paralegal services Marketing services Mediating Meeting planning Photography/video production Public relations Space planning



Shop Talk

The difference in the level of service generally received by a customer from a small and large business is best illustrated in the example of an Avon sales representative and a cosmetics clerk in a large department store. An Avon sales rep visits customers in their homes at mutually convenient times and helps with the selection of cosmetics and related products. Free of distractions—such as distorting fluorescent lighting, other shoppers, and a blaring PA system—the Avon representative can concentrate full attention on helping the customer. Seldom can clerks in large retail operations provide the same level of focused customer service.

wants or to reflect the personality or characteristics of their customers. This is true whether the products are works of art, a craft item, or food. Large organizations that sell mass-market consumer goods—especially when those goods are produced by others—simply lack this ability.

Second, whether proving goods that they have produced themselves or were produced by others, small businesses can offer better and more personal service to their customers. This improved service usually results from a more personal relationship between small business people and their customers than is often possible with larger business organizations.

Some Goods and Services Are Suitable for Both Types of Customers

Clearly, some products such as arts, crafts, giftware, and cleaning products can be offered to both the consumer and the organization market. Similarly, there is nothing that makes services such as catering, home inspection, and landscape maintenance intrinsically more suitable for consumers than for organizations. What makes a difference is how the products and services are marketed. Part III, which deals with marketing issues, will help you develop appropriate marketing strategies for each of the market classifications.

What Business Should You Start?



Building Block

Small businesses are driven more by their owners' love of what they are doing than by objective and standard procedures, which are often borrowed from big business. If you genuinely love what you do in your business, you will find ways of coping with the aspects that bother you. If you don't love what you are doing, all of the many frustrations will be obstacles to your success.

There really is no single business good for everyone. When considering what business is best for you, consider your interests and abilities. The most successful businesses emerge when customers pay you for what you love to do.

If your business is built on a passion, whether it's computer programming, arranging flowers, or cooking, you have probably spent a great deal of time learning and doing it. It is reasonable to assume that you are good at what you love doing. It's also reasonable to expect that you have a solid commitment to doing it.

Further, for most of us, running our businesses is more than simply a strategy to earn a living. Of course, we expect to generate a decent income. But we usually expect more than that. We also expect to enjoy our work.

Running your own business is not always fun. Not everyone sees administrative tasks such as record keeping as enjoyable let alone exciting. Some aspects of running your own business can be very frustrating. Unless you truly enjoy pain and suffering, it will be hard to maintain your commitment when you feel overwhelmed by the responsibilities of operating your business. But if, as a computer consultant, you love looking after your customers' computer problems, then you will find a way of dealing with the never-ending administrative work. Similarly, if, as a graphic artist, you love undertaking design work, you will find a way of coping with marketing research or whatever else it is in running your business that drives you crazy.

The Least You Need to Know

- To succeed in selling goods that you produce yourself, make sure that they are unique and, whenever possible, personalized for your customers.
- If you sell goods produced by others make sure that they are of good quality and that they carry a suitable manufacturer's guarantee.
- Small businesses can offer more personal, and often better-quality, services than large business organizations.
- To succeed in your business, you must love what you are doing.



Do You Start from Scratch... Or Buy a Business?

In This Chapter

- ▶ Thinking it through: Looking at all of the options you have
- ▶ Key points to consider when deciding on a new business, an existing business, or a franchise
- ▶ Tips on what to look for, whichever way you go
- ▶ Where to find resources to help you get started

Having made the decision to run your own business, you face three basic choices. You can start your own business from scratch, you can purchase an existing business, or you can purchase a franchise. Each approach has its own advantages and disadvantages.

Starting from scratch involves deciding what kind of business you want to start and operate and then putting all the pieces together to make it happen. The obvious advantage is that you have total control over all decision making. This allows you to customize your operation to reflect your personal preferences. However, creating a successful business from scratch can be a very challenging and uncertain process.

When you buy an existing business, the systems and procedures are already in place; you simply carry on what the previous owner did to make the business successful. Although it is expected that existing customers will continue to do business with you as the new owner, there are no guarantees.

The third option, buying a franchise, generally carries the lowest risks. You are buying an operating system that has proven to be successful for other operators. Assuming

that you follow the franchisor's procedures, buying a franchise can be worth the relatively high costs involved.



Entrepreneur Beware

The freedom of doing things your way can be very seductive, especially if you have spent most of your working life as an employee. When faced with a wide range of choices, it is easy to be seduced into trying a little bit of everything. Although this approach might work at a buffet table, it can be a disastrous practice when used in small businesses.

Starting from Scratch...Doing It Your Way

Starting your own business is like building a new house. Subject to existing laws and regulations, you are free to do whatever you want, wherever you want and however you want to do it. Bearing in mind the comments made in Chapter 3, you choose the goods or services to be sold and target your potential customers. You even develop and implement your own marketing strategies and, best of all, get to keep all of the after-tax profits that your business generates. Instead of blindly following policies and procedures designed by someone else, you can develop your own that reflect your preferences and personality. And once you have succeeded in achieving your goals, you will have the satisfaction of having done it yourself, your way.

Getting Free and Low-Cost Information and Advice



Hot Tip

The federal government, in association with provincial and territorial governments, has established network business service centres that are excellent information resources for all businesses, regardless of their stage of development. See Appendix B for contact information for your province or territory.

Governments, businesses, and not-for-profit organizations of all sizes and kinds have all recognized the importance of small businesses. As a result, there are plenty of free and low-cost resources to help with business startup. These resources include workshops, seminars, books, software, and Internet sites. Government support is based on the economic importance of small businesses, while business support is marketing-driven. In supporting business startup programs, other businesses hope to attract new businesses as purchasers of their goods and services.

Much of this information and advice is really quite helpful. Unfortunately, much of it is also very bad. Before committing time, and perhaps money, to any of these startup resources, take some time to consider the following questions. Are the presenters and advisors actually experienced in running a small business or do they just talk about them? How many

other small businesses have actually been helped by the resources? What do the people they have helped say about them? Even though there may be no direct cost associated with using the resource, you could wind up wasting time and energy.

You Might Need Some Professional Advice

With so many free or low-cost resources available there is often no need for costly professional services. You don't need a lawyer to file the necessary government forms on your behalf. Similarly, with today's range of excellent user-friendly bookkeeping and accounting software, it is not always necessary to have an accountant to set up your bookkeeping system.

There are, however, circumstances in which it is prudent to seek the advice of a lawyer or accountant. If, for example, there is more than one person involved in the business, or if the business faces some complex legal issues, it would be a good idea to get some legal advice. Chapter 5 offers suggestions to help you choose a lawyer who is right for you. If there are some serious financial or tax consequences for your planned business, qualified accounting advice might be helpful. Chapter 9 offers help to choose an accountant.

Your Biggest Risk

The major downside of starting your own business from scratch is that this is the most risky approach. Approximately 80 per cent of business startups never make it past the second year of operation. This high failure rate means that banks and lenders are often reluctant to lend money to new businesses. In many cases business owners lack experience in running businesses and are driven by their own dreams of where they want to go. Without good collateral to secure their loans, most lenders will not lend money based on the owners' hopes and dreams.

Ready for a Daunting Challenge?

I have always enjoyed watching jugglers demonstrate their art. It's truly amazing how they can keep so many items going simultaneously. Perhaps my fascination stems from the fact that running a small business also requires a great deal of skill at juggling.



Building Block

Choosing the most appropriate thing for you to sell and providing the product to the right customers can reduce the risk. These are basic elements of a good business plan. The importance of a carefully researched and well-prepared business plan cannot be emphasized enough. Certainly, many businesses that failed had good business plans to guide them. Just as certainly, few businesses that succeeded did it without proper planning.



Hot Tip

Like experienced jugglers, small business owners can handle the challenge by concentrating their attention on high-priority items. For the juggler, the top priority is the item in hand. It must be removed to make room for the next highest priority, the incoming item. The same approach can also work for small business owners. I like to get things off my desk and onto someone else's as soon as possible. This gives me a sense of completion and allows me to move on to the next priority—incoming tasks.

Like jugglers who entertain us, owners of small businesses must keep several things going simultaneously. This is especially true when they are in the startup phase of their business operation. Like the entertainers, owners usually do their juggling alone. Certainly both entertainers and owners receive help from time to time. However, the significant portion of the work, whether juggling or running a business, is done alone.

In both cases, this can be a daunting challenge. Especially for people who prefer to keep things simple and would rather do one thing well than handle many things competently.

What About the Uncertainties?

Whenever we do anything for the first time, we are filled with uncertainty. This is as true of learning to swim or ride a bicycle as it is of starting a new business from scratch. Although we see other people comfortably doing what we are about to do, this does not mean that we will be able to do it as well.

Starting a new business is filled with uncertainties: Did I select the right product or service? Will these customers buy from me? Can I run a business? What will happen if I don't get any customers? And so on.

The uncertainty is real; it cannot be denied. Proper planning and perhaps other stress-reducing techniques can often reduce it, but it can never be totally ignored. As when handling all other business liabilities, effective management can minimize potential problems. Thorough planning and comprehensive preparation are excellent stress-management techniques.

Hey, I Want That One...Buying an Active Business

Buying a business is like purchasing an existing house. All of the major decisions have been made. In the case of a house, you can move right in and start living there, just as the previous owners did. You might want to make some changes before moving in or you might decide to wait a while and see what it's like living there. When buying a business, you can simply take over from the sellers and continue to do what they did; you can make some changes before you take over; or you can continue the existing operations until you decide what you would like to change and when you would like to make those changes.

For detailed information about buying an active business see *The Complete Idiot's Guide to Buying and Selling a Business for Canadians*.

What's Good About Buying a Business?

A business that has survived its startup phase offers several major advantages. There are existing goods and services that have been and continue to be offered to customers and, what's even better, the business has generated profits for its owners. This means that as soon as you take over the business, you can start to generate income. From a cash flow perspective, this is preferable to starting a business from scratch, in which case it might be some time before any income is generated for the owners.

Buying an existing business can overcome the disadvantages inherent in starting a business from scratch. With an existing track record of profitability, lenders are more likely to give favourable consideration to financing the purchase or operations of an existing business. Assuming that the new owners will continue to operate the business in the same manner as the previous owners, it is reasonable to expect a continuation of past profitability.

Having a history can also help alleviate uncertainty. Take, for example, the common experience of a slowdown in business activity. Without having experienced the ups and downs of business cycles, it is easy to slide into worrying about whether or not things will pick up again. It is very reassuring to be able to look back at what has happened in the past and know that slow times have frequently been followed by periods of higher activity. The uncertainty—"What's going on?"—is replaced by reassurance—"It's part of a cycle.... Business is like that."



Building Block

In most cases, it is easier to continue to manage an existing business than to create and develop a new one. With a history of what works and what doesn't work, it will be easier to select appropriate strategies. Instead of creating new ways of doing things, the focus will be on improving and fine-tuning existing systems, procedures, and practices.

What's Bad About Buying a Business?

Unfortunately there are far more disadvantages than advantages to buying an existing business.

Many owners would be interested in selling their businesses. Realistically, though, not all small businesses are saleable. Most are overpriced, with the asking price based more on what the owner wants or needs than on a properly determined market value. In other

cases there is nothing to sell. Instead of building equity, owners often take money from the business as quickly as it comes in. Apart from tangible assets, some businesses have few income-producing assets that can be transferred to purchasers.

Most small businesses reflect the personalities of their owners. In practice, this means that customers often buy from the business because they enjoy a good relationship with the owner. Once the owner leaves the business, they may change to a new business that is perhaps closer or run by someone else they know. Few businesses can honestly claim that all or even most of their customers are so loyal that they will continue to deal with the business after it has been sold.

If finding a suitable business to buy is a challenge, completing the transaction is also a very formidable and complex task. It takes a very high level of technical skill to effectively evaluate a small business. Trained appraisers will look at everything from accounting records to employees' histories to physical premises. Before closing a deal, accountants will examine financial statements to ensure their accuracy and reliability; lawyers will scrutinize the title to every asset being transferred. And there will be reams of paper produced, reviewed, approved, and, in many cases, signed. This work is not free nor is it low cost. It is work performed by qualified professionals and as such it can be very, very expensive.



Entrepreneur Beware

Purchasing a business is like purchasing any other asset: The principle of *caveat emptor* (lawyer-speak for "let the buyer beware") applies. To avoid costly complications, it is critical to complete the due diligence examinations.

The reason for the close examination of a business to be purchased is to avoid as many skeletons in the closet as possible. The accountants will look for potential financial problems while the lawyers will look for possible legal difficulties. Some, but not all, of these skeletons can be removed before completing the transaction. Legal liabilities to employees, suppliers, and customers can usually be identified and either resolved or arrangements made to cover potential liability. But what about the lingering resentment of a disgruntled employee who might want to sabotage the computer system? Or the unhappy customer who is telling friends and acquaintances about the bad service he or she received? A proud banner proclaiming "Under New Management" will in no way exorcise all of the bad spirits.

Apart from the seller promising that there have been no material misrepresentations (lawyer-speak for "lies"), you get no guarantees along with the purchase. There is nothing to ensure that customers will continue to buy from the business after the sale.

There is also no guarantee that the market for the goods or services of a business will continue to be strong after the sale of a business. Had you purchased a tobacco farm when the general public was becoming increasingly concerned about the health risks



Shop Talk

I enjoyed a good working relationship with my clients when I practised law. After I sold the practice, many of them decided that they would rather not deal with the lawyer who purchased my practice and decided to take their business elsewhere. The purchasing lawyer claimed that I had defrauded him because many of my long-standing clients were not prepared to deal with him. Although I got along well with my clients, I was in no legal position to force them to continue to deal with my successor. Even though I encouraged them to stay with the practice, they were certainly free to take their legal work to whatever lawyer they chose. The same considerations apply to all other customers of all other businesses. There is no obligation, moral or legal, that requires them to remain customers of an individual business after the sale.

of smoking, you wouldn't have been able to get your money back when you couldn't sell your products.

And don't forget possible future tax implications that might arise on the purchase of a business. When all is said and done, buying an existing business is a very complex, time-consuming, and expensive undertaking.

What About Buying a Franchise?

Franchising is one of the most popular approaches to getting into business. Approximately 1100 Canadian franchise organizations operate almost 75 000 outlets, with a new franchise opening every one hour and forty-five minutes.

Buying a franchise is roughly comparable to buying a condominium. Condo owners have legal title to their property, but the use and enjoyment of their property is subject to many rules and restrictions. These rules regulate the use of common facilities such as parking and recreational facilities.

Franchisees likewise have legal ownership of their businesses, but the operation of these businesses is subject to rules and restrictions contained in the franchise agreement. Agreements regulate everything from location and physical setup to approved suppliers and marketing.

Essentially a franchised business operates following standard practices and procedures that have been developed by the franchisor. The franchisor owns these practices and procedures and grants a licence to the franchisees to use them. Franchises cover business

operations such as food service (Tim Hortons and Subway, for example), retail sales (Radio Shack, Shoppers Drug Mart), and maintenance and cleaning services (Student Works Painting and Molly Maid).

The Good News About Franchises



Hot Tip

For more information about franchising and selecting a suitable franchise, contact the following organization:

Canadian Franchise Association
5045 Orbiter Drive
Mississauga, ON L4W 4Y4
Phone: (905) 625-2896 or (800) 665-4232
Fax: (905) 625-9076
E-mail: info@cfa.ca
Web site: www.cfa.ca

When you buy a franchise, you purchase more than just the use of the name. You buy a way of doing business that has proven to be successful. And with this way of doing business, you also acquire the experience of knowing what works, what doesn't work, and how to fix things that do not work well. As a result, many startup problems can be avoided and operational difficulties can be resolved quickly and efficiently, minimizing potential damage. In this regard, buying a franchise is like purchasing an existing business: There are established practices in place that help ensure the smooth operation of the business on an ongoing basis.

With many franchisees purchasing the same goods from the same suppliers, franchise operations have tremendous purchasing power. As a result, their buyers can often negotiate lower prices on bulk purchases than can nonfranchised operations. In practice, the buying power is comparable to a large retail chain, but exercised by a collection of small

businesses. When passed on to individual franchisees, these savings can significantly reduce the cost of goods sold, increasing the profitability of the franchise. This increased profitability contributes to the decreased risk as outlined above.

One of the greatest advantages of franchising is the marketing support of the franchisor. Franchisors derive their income from the sale of franchises, from supplying their franchisees, and by way of royalties on franchisees' sales. Thus, the more successful their franchisees are, the more successful they will be. National marketing programs help ensure the ongoing profitability of individual franchisees. Once again, this increased profitability resulting from national marketing programs helps reduce the risk for franchised businesses. Independent businesses simply do not have the resources to undertake marketing programs and activities comparable to those of their franchised competitors.

And the Bad News About Buying a Franchise

The reason that franchised businesses are so successful is that virtually all aspects of the operation are very tightly controlled by the terms of the franchise agreement. In

practice, this gives the franchisee very little control over how things are done. For control freaks and creative entrepreneurs, it can be very difficult to follow standard and often inflexible practices and procedures. These types of owners would likely be better suited to starting their own businesses from scratch.

In order to sell franchises, franchisors make many promises to potential and existing franchisees. Unfortunately, not all of these promises are kept. Some broken promises arise from cash flow problems such as higher-than-expected costs, lower-than-projected revenue, or franchisees going out of business. Other promises might have been made simply to encourage potential franchisees to sign on the dotted line. Regardless of motivation, the outcome is the same: Promises are broken and, as a result, franchisees experience losses of some kind. Not all of these losses can be recovered from the franchisor.

Buying and operating a franchise can be a very costly undertaking. In many cases, accountants and lawyers are involved in evaluating a potential franchise, preparing the application, negotiating the agreement, and helping arrange the financing. As mentioned earlier, these professional fees can be very costly.

Franchise fees can also be very high. It is not uncommon for these fees to be in the hundreds of thousands, perhaps even millions of dollars. And these are fees that must be paid or financed before even one dollar of revenue is generated! Once the business is up and running, ongoing royalty fees will have to be paid to the franchisor. Running a franchised business demonstrates the principle that it takes money to make money.

The Least You Need to Know

- Starting from scratch gives you total control to build your business however you choose.
- Starting from scratch can be very risky and a major challenge.
- Buying a business allows you to continue an existing business.
- There are no guarantees that an existing business will continue to thrive after you have purchased it.
- When you buy a franchise you are buying an established way of running a business.
- Buying and operating a franchise can be very costly.



Keeping It Legal

In This Chapter

- ▶ Business relationships mean new responsibilities
- ▶ How to protect your personal assets from liability
- ▶ Sole proprietorships, partnerships, and incorporated businesses: What's the difference?
- ▶ What to consider when drafting a partnership agreement
- ▶ What is the right business format for you?
- ▶ Questions to ask when choosing a lawyer

Running a business involves creating and managing relationships with customers, suppliers, employees, and different levels of government. Each of these relationships carries with it a separate set of responsibilities. Failing to honour these relationships can jeopardize your business and perhaps even put your personal assets at risk.

There are different formats through which you can operate your business. Owning all of the assets and running your business yourself—referred to as a sole proprietorship—is the simplest format, requiring little in the way of professional assistance to get it up and running. Another format—the partnership—involves pooling resources with one or more people, and is more complex, requiring an agreement outlining the contribution and role of each partner in the business. Personal assets remain at risk in sole proprietorships and partnerships. The third format—incorporation—offers the best approach to protecting your assets from business loss, provided you do not personally guarantee obligations of your incorporated business.

It is not always necessary to hire a lawyer to help you with the legalities of business startup. However, in complex situations a good lawyer can help prevent problems. If you do need a lawyer, make sure that you choose the right one for you and your business.

New Relationships Mean New Responsibilities

Once you start a business, you lay the groundwork for a whole series of new relationships: with other owners (if there are any), customers, suppliers, employees, and the government. Each of these relationships carries its own obligations. As an owner, you can run the business as you see fit, subject to normal business and legal responsibilities.

In dealing with your customers, you have the responsibility to deliver what you promised. As a customer of suppliers, you have the responsibility of paying for goods and services that you purchase. You also have the responsibility for paying your employees for the work that they do. And, of course, you must also file various documents with all levels of government and pay any taxes that may be levied.



Building Block

Your primary goal in running your own business—to generate money to earn a livelihood—also has attached to it the equally high priority of protecting your personal assets from risk of loss.

Not surprisingly, there will probably be legal consequences if you default on any of these responsibilities. If, for example, you fail to deliver to your customers what you promised, or if the goods are faulty, they can sue you for damages and any losses. Similarly, if you do not pay your suppliers or your employees they can take you to court to collect the money owing. Frequently, governments can seize assets without even having to start a court action. Subject to minor exceptions, the local sheriff can seize your assets to satisfy a judgement against you. The bottom line is that once a judgement has been awarded against you, you risk losing your assets, from bank accounts to real estate.

Protect Your Personal Assets

Most of us would agree that it is quite reasonable for business assets to be seized to pay court judgements arising from business activities. On the other hand, it would seem quite unreasonable for personal assets that are not used for business purposes to be seized for the same purpose. The stark reality is that unless personal assets are separated from business assets, they face the same risk of seizure as business assets.

It is important to separate personal assets from business assets. This can be achieved by transferring the registered ownership of such assets as motor vehicles, registered securities, and real estate to family members who will not also be owners of the business. Provided the transfer is completed early enough in the startup phase of the business, this time-honoured strategy can effectively protect personal or family assets. It is important that the transfer of ownership be completed with registration of appropriate documents.

The bad-news aspect of this approach is that although the assets are protected from loss through business difficulties, they are not protected from loss through family or domestic difficulties. If a business owner transfers real estate to a spouse to protect the property from business loss, the transfer cannot be reversed if the marriage subsequently breaks up.

What's the Right Business Format for You?

Sole Proprietorship

A sole proprietorship is the simplest format for operating a business. Unless you choose to operate the business in a name other than your own, no registrations are necessary to start the business. If you anticipate generating less than \$30 000 in annual revenue, there is no need to register and collect GST. Depending on where you operate, you might or might not have to register to collect sales tax. See Appendix B for registration requirements within your province or territory. Registration is usually a fairly simple, straightforward process that seldom requires the assistance of a lawyer.

For tax purposes, business income is reported as income of the owner and is included on the standard personal income tax return. Similarly, business expenses and losses are deductible from that income.

The main advantage of a sole proprietorship is its overall simplicity. It is easy to set up and maintain, and business losses can be offset against personal income.

There are, however, some major disadvantages to this format. The owner is personally liable for all business debts and liabilities. Many owners have lost their personal assets as a result of business difficulties. As mentioned above, the only way to totally protect personal assets is to transfer ownership to a family member before starting the business.

Also, a sole proprietorship is usually considered to be a small operation, and customers might be wary of that.

Frequently when sole proprietorships are sold, the seller must produce personal income tax returns as a means of confirming business income. Being as independent as they are, not many business owners would want to disclose their personal income tax return to prospective purchasers of the business.



Hot Tip

Even if you do not anticipate earning more than \$30 000 in your first year of business, it is a good idea to register for GST. By collecting GST you present a professional image to your customers. Further, if you collect GST on your sales, you are entitled to recover the GST that you pay on business purchases.

Partnership

When I was practising law, I used to believe that the worst kind of ship was a partnership. I still believe that. I continue to hear about problems associated with the breakup or dissolution of partnerships. In fact, as a lawyer, my top priority in helping clients entering partnerships was to make sure there was an equitable procedure in place when, not if, the partnership broke up.

In a partnership, two or more owners share the profits equally, unless otherwise agreed. Each partner pays tax on his or her portion of the partnership income. Notwithstanding any partnership agreement, each partner is fully responsible for all partnership debts and liabilities. Again, unless otherwise agreed, each individual is legally authorized to act and make binding commitments on behalf of the partnership. Like sole proprietorships that operate under a name other than the owner's, partnerships must file a form with the provincial or territorial government listing the partners' names and addresses. This registration is usually a fairly simple process that you can handle yourself.



Entrepreneur Beware

The double whammy of unlimited personal liability for partnership debts and the ability of one partner to effectively bind the others is a major drawback to partnership as a business approach. Another major disadvantage is the high possibility of inter-partner disputes and the disruption to the business that accompanies a breakup.

The major advantage of a partnership over a sole proprietorship is the pooling of resources. By combining their skills and equity, partners will have more resources to offer than they would have if they were operating as sole proprietors.

A partnership agreement can help avoid difficulties. Below is a checklist of issues that should be addressed in such an agreement. It is usually best for the partners to reach agreement on these issues and then hire a lawyer to prepare the actual agreement. As a double-check, each partner might ask his or her lawyer to approve the agreement. But be careful to avoid involving too many lawyers in the process. You might find yourself triggering an expensive nitpicking contest among the lawyers. It might be possible to avoid this contest by placing a limit on the amount you are prepared to pay your lawyer for reviewing the agreement.

Issues to Be Addressed in a Partnership Agreement

- **Who are the partners?** Note that a corporation can be a partner.
- **Firm name.** This is the name under which the business is carried. To avoid the possibility of conflict with a similar business using the same or a comparable name, conduct a name search at the same government agency that registers names.
- **Term of partnership.** This refers to the date on which the partnership started. Unless otherwise agreed, the partnership starts when the agreement is signed.

- **Place of business.** Where is the partnership going to carry on business?
- **Description of business.** What will the business do? What limitations are there on partners' activities outside of the partnership, both when active as a partner and after retirement?
- **Amount of contribution to capital.** How much does each partner contribute to the capital of the business? What happens if the business requires more capital? Unless otherwise agreed, partners contribute and share equally.
- **Records.** What accounting and other records will be maintained? What statements will be given to partners? When? Unless otherwise agreed, all partners have equal access to partnership books.
- **Fiscal year.** When will the fiscal year begin and end?
- **Accounting principles.** Will assets be valued at cost, market, or depreciated value? How will goodwill be valued? What policies will determine depreciation, interest on partners' advances and capital, write-offs, reserves, and payment of partners' personal expenses? How will profits be calculated?
- **Banking arrangements.** What bank will the business use? What kinds of accounts will be used, and who will have signing authority?
- **Restriction on partners' interests.** Can partners pledge their partnership interests as security for loans? If so, what protection can be given to the other partners? Can interests be sold to outsiders? It is usually better to prohibit pledging or selling partnership interests.
- **Time commitments.** Will all partners devote full time and attention to the partnership? If not, how will compensation be adjusted to reflect part-time involvement?
- **Management.** Who is in charge of sales, management, administration, and so on? What can and cannot be done without the approval of other partners? If approval is necessary, how is this approval to be obtained? Who signs contracts on behalf of the partnership?
- **Partnership draws.** How often and how much can partners draw against profits? If partners draw too much, the business may have to borrow funds to maintain its cash flow.
- **Expulsion, retirement, bankruptcy, or death of partner.** How will these events be handled to ensure that the business will continue and that the departing partner (or estate) receives payment for partnership interest? Should there be a provision prohibiting departing partners from competing with the business? How will the interest of a departing partner be valued? Must remaining partners purchase this interest? If so, what are the criteria for doing so?
- **Dissolution of partnership.** What actions will, and will not, automatically dissolve a partnership? What procedure will be followed on dissolution?

- **Partnership property.** How will ownership of partnership property be registered?
- **Insurance.** What kinds of insurance coverage will the partnership carry? Will partners be required to insure each other's lives to fund the purchase of the interest of a deceased partner?
- **Arbitration of disputes.** If a dispute arises, how will it be arbitrated without having to go to court?
- **Amending agreement.** When and how can the agreement be amended?



Shop Talk

Two friends, Russell and Marjorie, decided to start their own business. When they discussed their plans with their lawyer, he suggested that they agree on what would happen to the business when one of them wanted to end the partnership. They agreed that this would never happen. However, to appease the lawyer and to get on with other issues, they agreed on a dissolution provision. The agreement was prepared and signed; the two happy partners had a special dinner to celebrate their new business.

The next day, Russell called the lawyer and advised him that, as a result of an argument at the celebration, he and Marjorie had decided not to proceed further with their business plans. He also said that the only thing on which they could now agree was how good it was to have the dissolution provision.

Depending on the nature of the partnership, not all of these provisions may apply. As stated above, before signing a partnership agreement, especially if the terms are fairly complex, it is best to have the agreement reviewed by each partner's lawyer.

Partnerships share the same disadvantages as sole proprietorships, as outlined above.

Incorporation

A corporation, or limited company, is a distinct legal entity whose rights and obligations are separate from those of its owners. It can run a business in the normal manner: borrowing money, buying and selling goods and services, hiring and paying employees, and so on. The magic feature of a corporation is the fact that its owners (shareholders) are not automatically liable for its debts; nor is the corporation automatically liable for the debts of its shareholders. As a result, personal assets are not at risk of being seized to pay the debts of an incorporated business.

As if that is not a good enough reason to incorporate a company to run a business, there are potential tax savings associated with incorporated businesses. These savings include lower small-business corporate tax rates, certain capital gains exemptions, and increased flexibility in income splitting and estate planning.

With these major benefits, I am at a loss to understand why all owners of businesses do not incorporate. The main argument that I have heard against incorporation is the added cost.

Granted there are out-of-pocket expenses of \$300 to \$500 for filing the articles of incorporation, and yes, these one-time fees are higher than the filing fee of less than \$100 that is normally paid to file declarations of partnerships. But because the vast majority of incorporated businesses are fairly simple and straightforward, most owners can prepare and file the necessary documents themselves. Hard copy and electronic incorporation guides are available in major book and office supply stores, in most public libraries, and on the Internet. Paralegals, also called legal clerks, can also help with the preparation and filing of forms. Thus, the main expense of incorporation, lawyers' fees, can often be reduced.

With the high cost of legal fees eliminated from the equation, the only other argument against incorporating a business is the increased complexity and operating cost. Although there certainly are additional forms, filings, and costs for incorporated companies, these additional costs are insignificant when compared to the protection offered.

Just as a partnership agreement is essential when there are two or more owners of a business, a shareholders' agreement is necessary if there are two or more shareholders or owners of a corporation.

Generally speaking the terms of a shareholders' agreement will be comparable to the terms of a partnership agreement. Typical agreements detail the following topics and establish policies and procedures for dealing with each.

1. Term
2. Description of the corporation
3. Details of share ownership
4. Transfer of shares
5. Board of directors



Entrepreneur Beware

Whenever you personally guarantee the debts of your incorporated business, you are waiving the protection offered by the incorporation. For this reason, do not volunteer to personally guarantee any corporate debts. If you are asked or pressured to do so, be very cautious. The incorporation provides you with significant rights. Do not waive them unless you have a solid reason for doing so.

6. Officers
7. Financial matters
8. Restrictions on management of the corporation
9. Resolution of disputes
10. Enforcement of the agreement

Agree to these issues before asking your lawyer to prepare an agreement.

Choosing Your Lawyer

Although most of us would like to, few of us can operate a business without the assistance of a good lawyer. Since lawyers can be of immeasurable assistance to you, it is critical that you choose the right one for you. There are many good lawyers in Canada; you might even know some of them. However, finding the right lawyer to help you with your small business is not always an easy task.

There are many things a lawyer can do to help. Before you start looking for a lawyer, think about what you will want the lawyer to do. Here is a list of what a lawyer can do for you in starting and running your business.

- Advise on personal and business rights and responsibilities
- Advise on tax issues
- Prepare agreements and complex forms to be filed with governments
- Represent you in court and before administrative tribunals
- Ensure filings and registrations are completed



Hot Tip

If a lawyer either refuses to answer your qualifying questions or suggests meeting in his or her office instead, strike that lawyer's name from your list. If he or she is not willing to help you by providing information that you need to make the initial decision, you cannot expect much help if you hire that individual.

Once you have determined what you would like your lawyer to do for you, make up a list of potential lawyers. In assembling this list, you can contact lawyers you know to find out if they are experienced in working with small businesses. If they are experienced, add their names to the list. If they do not have the experience, ask them for referrals. You can also ask your personal contacts, especially any that operate a small business, for the names of suitable lawyers.

The next step is to check to see how qualified these lawyers are to do the work that you want done. This involves phoning the lawyers on your list and asking them the following series of questions.

- How much experience do you have in assisting clients with the startup and operation of businesses?
- How much of your practice is devoted to this area?
- Do you have time to help?
- How do you charge for your services?
- Do you provide your clients with a detailed written statement of fees?
- Do you charge for the first meeting?

From the lawyers who answer your questions, you will select the two or three whose answers satisfied you most, and schedule meetings with these people. The purpose of these meetings is to help you decide how well each lawyer can help. This is the time to tell the lawyer about your business. Also, build on the questions that you asked in the phone conversation. You might ask the following questions at your first meeting.

- What kinds of business owners have you advised? How many? When?
- What role did you play? What did your support staff do?
- Do you bill by installments and, if so, how frequently?
- How much do you think this will cost me?

Obviously you can ask any other relevant questions. However, due to the confidential nature of lawyers' relationships with their clients, do not expect them to be willing to give specific client names as references.

When you and a lawyer have agreed to work together, enter into a written agreement. Among other things, this agreement will include what you and your lawyer will do, how the fees will be calculated, how and when accounts will be rendered and paid, method of payment of expenses that the lawyer will incur on your behalf, and total estimated legal costs. Just as good fences make good neighbours, good agreements make good lawyer-client relationships.



Entrepreneur Beware

Do not hire a lawyer you do not like, regardless of his or her experience and qualifications. You will probably be working quite closely with your lawyer, so make sure that the two of you can get along with each other.



Entrepreneur Beware

When legal fees are billed in installments at regular intervals, the total overall cost is usually higher than if the fees are billed all at once. If you agree to installment billing, make sure that the total amount billed does not exceed the estimate.

The Least You Need to Know

- Failure to honour obligations can put your personal assets at risk to pay business obligations, especially if you run your business as a sole proprietorship or a partnership.
- You can protect your personal assets by transferring them to a family member before you start your business.
- Sole proprietorships are the simplest and riskiest format for operating your business.
- A partnership can increase the resources available but will also increase your risks. Always prepare and sign a partnership agreement clarifying the rights and roles of all partners.
- Incorporating your business can protect your personal assets.
- Choose your lawyer carefully to obtain legal services that are right for you and your business.

Part 2

On Your Mark

Once you start your business, among other things you will need to set up an office or workspace and plan what you are going to do. As part of your planning, you will have to arrange the money you need to get up and running and plan how you will manage any risks that might arise in your business.





Preparation for Your Business

In This Chapter

- ▶ Planning your business
- ▶ What you need to purchase
- ▶ Where and how to set up your office
- ▶ Do you need a motor vehicle for your business?
- ▶ Consider legal requirements

Success in a small business depends to a large degree upon the preparation that you do before you start. Obtaining the physical things that you will need is usually the easiest and most enjoyable aspect of starting your business. It's like shopping for school supplies for the start of a new school year.

Once you have decided upon the type of business that you will run and are satisfied that you will probably be able to attract paying customers for your goods and services, you can go shopping. Provided you stick to a budget, you can buy whatever you need and want to set up your office: furniture, telecommunications services and equipment, computer equipment, and so on. You might even be able to claim some of your home occupancy and automobile expenses against your taxes. And speaking of taxes, make sure that you are registered with appropriate government departments.

Just as no two individuals are alike, no two businesses are alike. Before you start shopping for standard items, make sure that you have added any special items or equipment to your list.

Make Sure That You Will Have Customers

Successful businesses are customer driven. This means your business must be based on your ability to meet other people's needs, not on your own skills and resources, regardless of how impressive they might be. Before starting to plan your business, review Chapter 3 and make sure that you have identified specific products or services that you can sell and, even better, that customers will buy.

Once you have identified what your customers need and want from you, and satisfied yourself that you can meet these needs and wants, you must determine what you will require to operate your business. The following material outlines some standard requirements. Add to this list any specific requirements that you might have.

Planning Your Business

Although all businesses try to flourish, few succeed in the long run without a business plan. The development of a business plan is set out in further detail in the next chapter. Below are some aspects to consider when thinking about writing your plan.

Business Name

If you carry on business using just own name, you are not required to register your business name. Thus, if your name is Tasha Mathias, you can simply call your business "Tasha Mathias" and use that name on your stationery, promotional material, invoices, and so forth. Obviously you can deposit any cheques payable to you in any bank account bearing your name.



Shop Talk

Tasha Mathias has decided to start her own business that will provide administrative support services to small businesses. She could simply call her business "Tasha Mathias," and she would not be required to register the name. Unless she is very well known as a provider of support services, on its own the name will not attract the kind of customers she seeks.

Alternatively, she could call her business "Tasha's (or Mathias) Business Services," which would identify the services that she provides. Or she could go all out and create a name such as "Your Office Staff," which again would identify the services that she provides. Although these two names would have to be registered, each would be very useful for marketing purposes.

However, if you carry on business under a name that is not your own, such as “Tasha Mathias Services” or “Tasha’s Services” you must register the name with the appropriate government department. Registration is usually a very simple process. You can and should do it yourself. (See Appendix B for lists of the registration requirements for different provincial and territorial jurisdictions.)

In selecting a name for your business, choose a name that accurately reflects your services. This will assist you in your marketing activities.

Setting Up Your Office

Space

Regardless of what they sell, all businesses need office space in which the owners can complete and store paperwork and records. Most business premises include some office space, although in many instances, the designated office area would be better suited for use as a broom closet.

Because there is limited office space in business premises, or for reasons of security or convenience, or because the business is home based, many owners establish office space in their homes. In deciding where to locate your home office, select the office space that you think will be comfortable for you and those around you.

Furniture

Since they are experts at doing more with less, many small business people are also innovative recyclers. The first act of recycling usually involves cleaning up an old desk or table to use as a workspace.

Unfortunately, this approach fails to recognize the realities of modern businesses. Not all desks and chairs are suitable for computer use, for example.

Specialized computer desks are readily available from most furniture retailers. In most cases, however, these units are overpriced and



Building Block

If used primarily for business purposes, your home office space is a tax-deductible expense. Simply calculate the percentage of the total floor space of your house that your office occupies. This percentage of house occupancy costs—including taxes, utilities, and maintenance—becomes a tax-deductible expense. Check with your accountant or tax advisor for further clarification.



Entrepreneur Beware

Don’t be tempted to use any old chair as part of your computer setup. Use the best adjustable chair you can afford, one that puts you at the height to sit with your arms at right angles to the keyboard and your calves and thighs forming a right angle to the floor when your feet are flat. This will reduce your likelihood of suffering a computer-related repetitive strain injury.



Shop Talk

When I first set up my home office, I used a very attractive solid pine desk and matching chair. But after several months, I experienced the excruciating pain of what was diagnosed as a pinched nerve in my arm. This was a result of holding my arms at the wrong angle while I worked on the computer.

The numbness in the tip of my right thumb is a constant reminder of the importance of selecting and using appropriate furniture.



Hot Tip

Many good used file cabinets are available in all sizes and styles, so it makes little sense to buy new. Check the "office furniture" listing in the Yellow Pages to locate sources. Your cabinets need not remain the institutional-blah colour in which you find them. Decorate them to reflect you and your business—it's one of the perks of being on your own.

unattractive or too big for small home offices. The one-size-fits-all school of furniture design seldom works in home offices.

Standard tables with 67-centimetre (27-inch) legs make ideal computer desks. If you will also be using the table as a workspace, you can add a drawer to store the keyboard under the table when you are not using the computer. For more workspace, just place a matching table beside the computer desk and leave the keyboard on your computer desk. This arrangement is low in cost and avoids the bulky appearance of most office furniture. The package is also easy to take apart if you move.

Just because your home office is fully computerized, you can't forget about handling and storing paper. We have yet to see the truly paperless office. Standard file cabinets remain popular choices for storing the paper that we all receive and collect. You can also use the cabinets to store unused paper and extra office supplies.

Telecommunications Services

What telecommunications services are best for home offices? The obvious first choice is your current residential telephone line. With touch-tone service you can add Ident-A-Call, which provides you with up to three phone numbers. Continue to use your existing telephone number for family and personal purposes and add a new number for business. You can also add a third number for a fax number. You will also need a ring selector (available from suppliers of telecommunications equipment) that recognizes the fax number and directs incoming faxes to the fax machine. Each number will have its own distinctive ring. Your existing number will ring once, the second number will ring twice and the third number three times. All numbers use the same line, which means that callers to any number will get a busy signal if you are using the line. To avoid a busy signal, add Call Answer, which will take messages while you are on the phone, or away from your desk, or if the fax machine is being used. An extension option allows you to keep business and personal messages separate.

Call Waiting might also be useful. If you are already on the phone, this feature lets you know when you are receiving incoming calls. A soft beep, or a series of beeps that correspond to the phone numbers, will let you know which number is being called. With Call Waiting, you can end a personal call in favour of an incoming business call. Or if you are on a business call and you find out there is an incoming personal call, you can ignore the call, and the Call Answer feature will take a message.

You are unlikely to use the other features that manufacturers like to build into telephones.

A single residential line, although very cost-efficient, has serious limitations. As your business and telephone use increases, your one line will be tied up with business calls and, therefore, will be unavailable for family and personal calls. Also, if you are using a residential line for home business purposes, you are not entitled to a telephone directory listing for your business. This means that customers and potential customers might have trouble finding you, especially if you carry on business under a name other than your own name.



Hot Tip

Use a good-quality two-line telephone for your home office. Here are some useful other features:

- A speakerphone, or hands-free feature, is useful for dialling (pick up the handset when your call is answered) or for freeing up both hands to do something else during your conversation.
- A memory feature enables you to store frequently-called numbers, which can be dialled automatically with a code.
- You can use a hold button while you retrieve supporting files or other paperwork without the caller hearing your shuffling.

If you run your business from home, sooner or later you will need a separate line for business use. At that point, you must choose between adding either another residential line or a business line. If it is important that your business have its own directory listing, add a business line. Otherwise, just add another residential line. You can add either one to the telephone you are already using.

It's a good idea to place another telephone carrying your new line in your kitchen or some other frequently used place away from your office so you won't have to run to take a call.

With the new line, you can also add an Ident-A-Call number for your fax machine. Use the same number and ring selector (change the setting to reflect the new ring sequence) that you used on your original line. Also add Call Answer service on your new line. This will allow you to use the same line with a fax and modem without missing any calls.

Don't add Call Waiting to the line that you use for business purposes. Focus your full attention on your business call.

If you use the Internet extensively, you might consider adding an ISDN line (Integrated Services Digital Network) or a comparable service available through local cable companies. These services offer high-speed digital access. This means that you can search for, and download, information twice as fast as on regular telephone lines. It also leaves your phone line free to make or accept calls and faxes.



Hot Tip

Unless you plan to make and receive a large number of telephone calls away from your office, a cellular phone is not essential. Before committing yourself to such a phone, track the number of calls you make away from your office and record the accessibility to public phones. If you do choose to use a cellular telephone, purchase a portable model. This will enable you to carry the phone with you if you travel in a different vehicle and will allow you to use the phone away from your car.

Answering Machines and Answering Services

You should not try to operate a business without an answering machine. Technological advances have resulted in very low-cost and effective answering machines. Many telephones and fax machines have them built in. Required features include voice-activated message taking and remote access for listening to your messages and for changing outgoing messages.

Answering machines have serious limitations. They can only provide and receive information, so the extent of the service provided is limited; and the message received is often unintelligible. Further, many callers prefer to deal with humans rather than leave messages on machines. And, unlike the Call Answer feature, callers are unable to leave a message if you are on the phone or using the fax machine or modem. To address these concerns, you might consider a telephone answering service instead.

The use of such a service will increase the number of messages that you will receive, and will also present a professional and efficient image for your business.

Unless it is important that your callers have instant access to you, a pager is not necessary. If you use an answering machine that you check regularly for messages, you can keep in touch with your callers.

Computers

A computer is as essential to your business as is a telephone. You will be able to attend to customer needs and administrative needs without purchasing secretarial and clerical services.

In selecting a computer, the first step is to clarify your business goals. A computer is just a tool to help you to achieve these goals. Ask yourself, What results do I want to achieve and how will a computer help me?

If you write many letters and reports you will need a basic word processing system to prepare, print, and store your work. A craftsman or sales representative, for example, might also need contact management software.

Word processing is really the backbone of most home businesses. Today's word processors are powerful tools that can perform a range of tasks from basic spreadsheet functions to desktop publishing. In practical terms, this means that you can use your own system to prepare personalized letterheads, business cards, invoices, and brochures. Most word processors come bundled in "suites" that contain some type of spreadsheet, database, and presentation software. It's a good idea when comparing suites to look for little extras like contact management software and Web integration.

Contact management software is a specialized type of database that helps you keep track of business contacts efficiently. You can keep basic information such as names, addresses, and phone numbers, and you can customize the type of information that you keep. For example, you can use this software to record details of conversations and meetings and make diary notes for follow-up. It is also excellent for correspondence, ranging from individual letters to customized or mass mailings. It allows you to insert the name and mailing address of a customer into your word processing system.

There is a wide range of good, user-friendly bookkeeping and *accounting software* available. In many cases, using the software is as easy as writing a cheque.



Building Block

It's important to discuss financial software with your accountant if you hire one to help with your business startup. When choosing software, make sure that you can exchange information with your accountant with the least amount of fuss. Ideally, you will want to be able to simply drop off a disk at year-end.

Your accounting software must also be acceptable to the Canada Customs and Revenue Agency (formerly called Revenue Canada), which has strict rules governing computerized bookkeeping systems used for businesses. It is also important to have the ability to move the information from your accounting program to a spreadsheet and/or word processor system.

There is also other software available that allows you to perform other valuable functions. You can use a modem and your computer with the right software to set up a fax-back system, which will automatically send information on a particular product or service to a prospective client quickly and efficiently.

You will also need a Web browser to access the Internet. You can use the Internet for e-mail and for locating all kinds of information and discussion groups. For example; you will be able to connect with other people who are in the same line of work to exchange ideas and services. The Internet is also a great source for up-to-date information on products and services.



Hot Tip

It is a good idea to start a log book for the computer to record information such as serial numbers, help line numbers, configuration (for example, port and hardware settings). You can also use the log to record dates and details of service performed and any changes such as additions to or deletions from your system.

The log will serve as the central repository for all of your basic system information and configuration. This information will simplify service work and make it easier to retrieve your system and get it up and running in the event of a crash.

There is also a wide range of industry-specific software available. To find out what is available and useful, ask other people in your field what they are using.

Your hardware must be capable of operating the software you will use in your business. When you buy a new system, make sure that you have received all of the peripherals—manuals, cables, and all of the paperwork that should be included. Even if software is preloaded, you are still entitled to receive the original disks as a backup. When you get your system up and running, leave it on for 24 hours and try to test all of the features. If hardware is going to fail, it will most likely happen within the first day.

Before you input any information into your computer, establish a routine for backing up your important information. For backup, you can use another hard drive, a floppy drive, or perhaps a tape unit. Backup your system regularly. Periodically restore your backup to make sure that your routine works and that you know how to retrieve the information and get the computer running again. Try to keep backup copies of your information separate from your computer system. If your computer is stolen, your backup disks will probably remain untouched, especially if they are hidden away in a closet.

To avoid computer viruses, ensure that you obtain and use a good virus detection program.

If you prepare reports and other written material for your business, invest in a laser printer. Alternatively, a good-quality desk jet, or ink jet, printer will provide you with adequate service. As with all computer equipment, make the purchasing decisions based on what you need rather than on what the sales representative has to sell.

Fax Machines

There are a number of approaches to the use of a fax machine. One is the standard fax machine with either a dedicated telephone line or Ident-A-Call (if available) and ring identifier. Second is the combination of a fax machine and an answering machine. Newer models have a built-in silicone chip that distinguishes incoming telephone calls from faxes, and routes the call accordingly. A third approach is to have a fax card installed in your computer and attached to a modem. This will enable you to use your computer terminal to send and receive fax messages. This technique works especially well if all the faxes that you send are computer generated. However, many of the computer-fax systems provide poor-quality incoming material.

Photocopiers

If you anticipate the need for making many copies of reports and correspondence, you might consider purchasing a photocopier for use in your home office. There are many small and relatively inexpensive copiers designed for home use. The alternative to having a home copier is to make regular trips to quick-print shops. You can also have copies made in many office supply stores, drug stores, libraries, and so forth. If you are making a large number of copies of relatively few documents, it is best to have the copying done at a quick-print shop. You can photocopy the material yourself or have the staff do it.

Multifunction Machines

Office equipment manufacturers such as Brother, Canon, Hewlett Packard, and Xerox produce multipurpose machines that combine some or all of the functions of laser printers, faxes, copiers, and scanners. These machines save valuable space in cramped home offices.

Specialized Equipment

Different businesses require different equipment. If your business generates a great deal of mail, you will probably want to obtain a postage meter. If you will be putting together batches of printed material, you might need collating equipment and an electric stapler. Or you might need some other specialized equipment, depending on the function of your business.



Hot Tip

Your paper wardrobe—your stationery—is one of your most important marketing tools. Since it is unlikely that your customers and potential customers will be seeing your office, your stationery must present the image of competence and professionalism. The time and effort involved in designing good stationery will be returned several times over. Take the time and spend the money to get the best stationery that you can afford.

Office Supplies

This category includes everything from pens, pencils, and paper, to pins, tape, and paperclips. You probably won't need too much of any one thing so don't buy in large quantities until you know the volume that you will be using.

Look for recycled paper—excellent-quality recycled paper stock is available. It is a statement of your commitment to environmentalism, which is usually well received in today's marketplace.

Many computer programs contain features that will let you design your own stationery and print it as you print the correspondence. Although the actual printing time is increased, you will have more versatility in the types and formats of letterheads, invoices, envelopes, etc. that you can produce. This is especially important if you operate more than one business.

Do You Need a Motor Vehicle?

If you use your automobile to travel from your place of business (your home) to your customers' places of business, your related automobile expenses can be used as tax deductions. Unless you use your automobile exclusively for business, only a portion of automobile expenses will be tax deductible. Check with your accountant.

Unless you anticipate using an automobile every working day, it will most likely be less expensive to rent a car when you need one.

What About Licences, Permits, Tax Registrations, Etc?

Some businesses—hairdressing and medical or dental services, for example—require municipal licences. Check with your local municipality to see if you need any licences. If you do, make sure that you get them before you start your business.

If you will be collecting sales taxes from your customers you must register with the appropriate tax authorities. Contact the appropriate Canada Business Service Centre listed in Appendix B for further information.

The Least You Need to Know

- ▶ Before starting to acquire things for your business, double check your plans to make sure that you can still expect to attract customers.
- ▶ As part of planning your business, choose an appropriate name and file the necessary forms with the appropriate government agency.
- ▶ Select and organize the space for your home office to meet personal and family considerations.
- ▶ Select furniture and equipment that meet your specific needs.
- ▶ Obtain necessary licences, permits, and tax registrations before you start your business.



Plan to Succeed

In This Chapter

- ▶ Reasons why you should prepare a business plan
- ▶ What you should include in your plan
- ▶ Analyzing your customers and the competition
- ▶ Financial statements
- ▶ Using your plan to help you succeed

Success in business is not a lucky happenstance right out of the blue. It starts with a carefully prepared plan that sets out the direction that the business must take in order to achieve the owner's desired results. The plan identifies ideal customers and how the business will promote itself to these customers and meet their needs. It also identifies the competition and any competitive advantages that the business enjoys.

Since business is a commercial activity based on selling something for the purpose of generating a profit, the plan will also include details of how the goods and services will be priced. The plan will address such financial considerations as projected cash flow and income statements.

As an important direction-setting document, the business plan will become a regular reference resource.



Building Block

By using a business plan, you can minimize the risks of losing time and money often associated with new business ventures. Unlike uniform road maps, which are readily available from a wide variety of sources, business plans are neither uniform nor readily available. You must prepare your own plan, reflecting your unique characteristics and those of your business.

Why Plan?

If you enjoy the challenge of discovering new territories without any kind of assistance, you will love the seat-of-your-pants approach to running a business. This spontaneous and free-spending style scorns planning and its main components, direction, and control. Free-spirited individuals claim to enjoy the flexibility of responding to opportunities as they arise and going wherever the market takes them. Without the restraints of predetermined goals and objectives, they can capitalize on whatever possibilities that lady luck may bring their way. In practice, this method resembles a pinball working its way through a maze of obstacles, shooting from place to place with no reasonable certainty of where it will ultimately land.

Success in any venture starts with planning. For example, successfully reaching your destination on a motor trip starts with determining your ultimate destination. Where do you want to be at the end of the trip? How are you proposing to get there? You are unlikely to head into unknown territory without a road map. By using a road map, you can minimize the risks of getting lost and increase the likelihood of achieving your destination.

As well as providing you with a requisite sense of direction, a well-prepared business plan will assist you in your dealings with your bank and other sources of financing. These alternate sources of financing are discussed in the next chapter. If you do plan to pursue third party financing, use the business plan format requested by the third party. By doing this you will be certain of providing the information that the third party requires, in the format that it desires. This will increase the likelihood of obtaining the financing.



Hot Tip

Use the planning approach that works best for you. If you need to know many details before you make a decision, make sure that your business plan is detailed enough to be useful to you. If you are capable of moving from broad generalities to developing and implementing more detailed strategies on the fly, make sure that your business plan defines your sense of direction while allowing you the flexibility that you need.

Creating Your Plan

There are as many approaches to business planning as there are experts to discuss the topic. Some people emphasize the importance of thorough analysis based on extensive research. The danger to this approach is that the planning process takes on a life

and sense of importance far greater than its purpose, which is to set a direction for the business. At the other extreme are those people who honestly believe that less is better and prepare a business plan that is little more than a point-form to-do list.

Regardless of approach, there are certain basic elements that are common to all business plans. It is possible that there are issues relevant to your business that are not addressed in the following material. If this is the case, make sure that you consider these issues while developing your plan.

What Results Do You Hope to Achieve?

This section will describe in detail what you will sell. It might also reflect the image that you want to project to your customers and discuss the market (or niche market) in which you plan to specialize, as well as the type of customers you plan to serve. In finished form, your desired results should read like a well-prepared 30-second radio or television commercial: clear, concise, and complete. The following questions will help you clarify your desired results.

- What goods or services do you provide?
- To whom do you provide these products or services?
- If you provide goods, what volume, measured by units and sales value, do you propose to provide during the first year? If you provide more than one type of product, estimate a volume for each line of goods.
- If you provide a service, what volume of service, measured by units of time, by dollar value, and by number of clients, do you propose to provide during the first year? If you provide more than one service, determine goals for each area of service.
- What profit do you project for the first year?



Shop Talk

Geoff Baker, an experienced technical writer who has worked for a major corporation for several years, has decided to start his own business offering technical writing services. In preparing his business plan, he has identified the following results that he would like to achieve:

- What goods or services do you provide?

Technical writing.

- To whom do you provide this service?

Small- to medium-sized businesses within a 30-kilometre radius of my home.

- What volume of service, measured by units of time, by dollar value, and by number of clients, do you propose to provide during the first year?

First year objective: to provide \$50 000 worth of writing service, or 1000 hours, to at least 100 clients.

Who Will Your Customers Be?

Chapter 13 details how to identify what your customers need and want from you. Once you have identified who your customers will be, what they want from you, and how you will serve them, summarize this information and include it in your business plan.

Chapter 17 outlines different strategies to promote your business. Once you have selected strategies, include the basic information in your plan.

Who Are Your Competitors?

We live in a very competitive world. If you think that virtually every organization, whether from the public, private, or not-for-profit sector is after your money, you are probably right. As a result of our governments' deficit-fighting activities, publicly funded organizations such as charities and educational institutions are conducting aggressive fundraising campaigns to balance their budgets.



Hot Tip

Although it is important to be aware of how many organizations are competing for your customers' time, attention, and money, realistically there is little that you can do about it. It is far better to direct your attention to the competition to which you can respond effectively; that is, those businesses that provide goods and services similar to yours and to clients similar to yours.

By identifying these businesses, you can undertake a competitive analysis that will provide you with the information that you need to compete effectively.

This competition takes place on two levels. First, there is the overall competition for disposable income of your existing and potential customers. Obviously, money that is donated to charities and not-for-profit organizations represents money that customers do not have available to spend on your goods and services.

Second, in order to raise funds, organizations have become very creative, frequently going beyond simple appeals for donations and offering goods and services for sale. Money that well-meaning neighbours spend on a high school-sponsored chocolate bar drive represents money that is not available to buy chocolate bars from the mom-and-pop variety store around the corner.

Business organizations of all types and sizes compete aggressively for customers' dollars. Let's assume, for example, that you have an upcoming family event that you would like to celebrate. You have a virtually limitless choice of how you can celebrate. Depending on your budget, you can do anything from preparing a fancy meal to taking the entire family on an extended round-the-world cruise. Or you can buy anything from accessories for the things you already have to zoo passes.

But you don't need to worry about everyone who can supply your product or service. Just identify your direct competitors.

There are several questions you can ask yourself to help you to identify and analyze your competitors.

1. How will your business compare to the competition? This will allow you to think about how you can do better than the competition. Having identified your competitive advantage, you can then incorporate it into your marketing communications (discussed in Chapter 17).
2. Are there any new business opportunities? These opportunities could be providing new goods or services that your competitors currently do not offer. Or they could mean providing goods and services to clients not yet being served by you or your competitors.
3. What do the customers in your market need and want? Make sure that what your customers need and want match what you plan to offer.
4. How do your competitors market their product or service? Do your competitors change pricing and promotional strategies at different points in the year? If so, what do these changes suggest? To what extent do your competitors make use of new technology? What does this tell you about your market?
5. How well is the market currently being served?

This will help you assess your future as a participant in the segment. If, as a result of your analysis, you learn that the market is saturated with capable competitors, what, if anything, can you do to distinguish yourself? Perhaps a better option might be to pursue other opportunities. On the other hand, if the market is not well served, what can you do to dominate it?

The table on the next page lists information that you should gather about each direct competitor. It is often difficult to obtain reliable information about your competitors, especially if they are small businesses. You will probably have to gather your information by watching what your competitors do and listening to what people say about them. Specific techniques for obtaining this information include the following:

- If possible, visit your competitors' locations and observe how employees interact with clients and each other, what the premises look like, and how products are displayed and priced.
- Listen to what customers and suppliers say about your competitors.
- Analyze your competitors' advertising to find out what it says about their products and services and how they serve their clients.
- Attend competitors' speeches or other presentations to hear what they say about themselves and how they serve their market.
- Check out your competitors' trade show exhibits.

Information Required for a Competitive Analysis

Item	Why It's Important
Summary of competitor's products or services, including quality, staff, promotional strategies, and customer service	To identify similarities and differences between what you and your competitor offers
Competitor's strengths and weaknesses	To identify what your competitor does better than you and what you do better than the competitor
Competitor's apparent strategies	To help predict competitor's future activities
Strength of market to be shared by you and your competitor	To help plan your marketing activities

Once you have gathered your information, you will have to interpret what it means for your marketing effort. Located on the next page is a chart that you can reproduce and complete for each competitor. When carrying out your competitive analysis it's a good idea to establish separate files for each competitor. This will enable you to continue to gather information such as marketing literature or suppliers' and customers' comments. You will be able to continue to monitor your competitors' activities and update your analyses as needed.

Here is an example of a competitive analysis for Geoff Baker, the technical writer mentioned in the previous Story Time box. Geoff will not be the only technical writer in his market. He has identified at least eight other people who provide services comparable to his. He asks his sister to call each competitor to make an appointment to discuss a possible writing assignment. Geoff has asked her to obtain the following specific items from each competitor:

- A sample of the writer's work that will be returned after viewing;
- References from clients;
- Copies of advertising brochures and any other promotional material the writer uses.

After reviewing all of the material, Geoff then prepares an analysis for each competitor using the competitive analysis chart. The analysis that Geoff prepared for TW Services is shown on page 74.

In completing similar analyses for other competitors, Geoff realizes that he is one of the few local technical writers with formal academic training in technical writing. Most of the others, like TW Services, expanded their existing businesses into technical writing.

Competitive Analysis

Name of Competitor _____ Years in Business _____

	Mine	Theirs
Strengths		
Weaknesses		

My competitive advantage(s) over them are _____

Competitive Analysis

Name of Competitor TW Services Years in Business 13

	Mine	Theirs
Strengths	<ul style="list-style-type: none"> • Broader range of services • Academic training in technical writing • Experience in producing • Experience with a broad range of projects • Good people skills • Well-established family 	<ul style="list-style-type: none"> • Well-established business • Well connected for referrals • Extensive client base • Satisfied clients
Weaknesses	<ul style="list-style-type: none"> • Limited experience in running a business • Limited existing client base • Low personal profile in the community 	<ul style="list-style-type: none"> • Limited experience with computer graphics • Weak people skills • Limited use of new technology

My competitive advantage(s) over them are

- + more skilled at technical writing
- + better interpersonal skills

How Much Will You Charge?

There are two major ways to price your goods and services: one is the easy way and the other the hard way. The easy way involves simply charging the market or going rate for comparable services. Using this approach, you determine what the competition is charging for similar goods and services and, assuming that your quality is at least as good as the competition's, use comparable pricing.

The hard way involves calculating your cost in producing specific goods or delivering specific services, building in an appropriate profit for your efforts and coming up with your selling price. In order to compete, your prices are going to have to be competitive so why waste your time crunching numbers. In the final analysis, your prices will be the market or going rate.



Shop Talk

As a practising lawyer, I acted for many people who were buying their first homes and were usually on a very tight budget. I wanted to reduce my fees to help them out a little but did not want to be perceived as a discount lawyer. Instead of reducing all of my fees, I adopted the practice of offering a discount to first-time homebuyers. The clients knew the full market value of my work and also enjoyed the special treatment that they received in buying their first homes. My bills always showed the full fee plus a notation such as "less 10% first-time buyers' discount." This practice proved very popular with my clients, and many referred friends and relatives to me.



Hot Tip

Since most customers equate price with value, it might not be prudent to offer significantly lower prices to gain a competitive advantage. This might suggest to potential customers that your quality is not as good as that of your competitors. However, in order to attract new business you can offer promotional discounts to encourage potential clients to try your work. You can also offer frequent-user discounts or other special allowances.

On the Financial Side

Chapter 9 outlines financial statements, including funding, forecasting, and cash flow. Once the statements are in their final form, incorporate copies into your business plan.

What Else Do You Need?

This section of the business plan identifies the licences, permits, and resources that you will require to begin and maintain your business operations. The following items are included in these requirements:

- Details of compliance with federal, provincial or state, and municipal government regulations;
- Outline of qualifications needed to obtain the necessary permits and licences to carry on your specific business;
- Registration for the collection of GST and provincial or territorial sales tax;



Entrepreneur Beware

Failure to obtain necessary permits, licences, and government approvals can cause you major problems, ranging from minor inconveniences to major legal difficulties. Fulfill these legal requirements as soon as you can.

- Skills required to provide services to customers, and source and cost of acquiring these skills.

Use Your Plan— Don't Archive It!

Once prepared, your business plan should not be consigned to your business archives. Just as you use a road map to monitor your progress toward your destination, you should use your plan to monitor progress toward where you want your business to be. If your business is developing as planned, you can proceed confident in the knowledge that if you stay the course you will achieve your overall goals.

Conversely, if things are not developing as planned, you can make mid-course corrections to modify your destination so that it more accurately reflects your operating experience. Your business plan can and will serve as an effective road map for you; you must, however, consult it regularly. It will be of little use stored in the bottom drawer of your desk.

The Least You Need to Know

- A well-prepared business plan will help you get to where you want to go.
- Your plan should describe your customers and what you do for them, and your competition and your competitive advantage over them.
- Your plan will also include financial considerations, such as how much you will charge for what you sell and your projected cash flow and income.
- For your plan to be useful, you must use it!



Where Will the Money Come From?

In This Chapter

- ▶ Personal resources you can use for a business
- ▶ Where else can you obtain financing?
- ▶ Options when borrowing from a financial institution
- ▶ Shareholders and partners
- ▶ Leasing instead of purchasing

One of the biggest challenges that small business owners face is financing their businesses. For most, this challenge first arises when they start their businesses, and continues until they sell or otherwise wind up the business.

The best way of handling this ongoing challenge is to manage it effectively from the beginning, ensuring that you have, and will continue to have, the money that you need to properly operate your business.

When starting your business, the first place to start looking for money is with your own resources. You might have some unused assets you can sell. Among your resources, family and friends might be prepared to help you out. Conventional lenders such as banks and credit unions are always willing to lend money to credit-worthy small businesses. Although all governments claim to support small business, unfortunately, few offer monetary assistance.



Entrepreneur Beware

Mortgaging your home to support your business is a gamble; a very big gamble. Before taking the gamble remind yourself of the advice often given to new or potential gamblers: "Don't gamble any more than what you can afford to lose." Can your family afford to lose their home? If so, by all means, go ahead and mortgage it. If not, look for some alternate financing.



Hot Tip

Canadians are reported to be among the world's largest purchasers of life insurance. Much of this is whole life insurance, which is in effect a low-yield savings plan. If you have life insurance policies that have a cash surrender value, you might consider cashing these policies and replacing them with term coverage. This will provide lower-cost protection while freeing up some funds that you can use for business purposes. If you do decide to replace existing whole life insurance policies with term insurance, make sure that your term coverage is in place before cancelling your existing policies.

Start With Your Own Resources

According to *Inc. Magazine*, in most small business startups, the personal savings of the owners finance approximately 80 per cent. Thus, the first and most obvious place to start looking for startup funding is in your own asset base. If you haven't already done so, calculate your net worth. That is the difference between the value of all of your financial assets—cash, investments, real estate, etc.—and your liabilities—what you owe on your credit card, bank loan, mortgage, etc. If the difference is great enough, you can use some of your assets to finance your business. How much of a difference is great enough? That depends upon a number of factors: your age, family responsibilities, retirement planning, and so on. If you have any question about whether you have enough financial resources to reallocate some of your assets to starting your own business, check with your financial advisor.

There are thousands of stories of business owners who risked everything they had, even their homes, to start and run their businesses. If they ultimately achieve success and live happily ever after, they are often presented to us as models of the determination and commitment required to succeed in one's own business. Inspirational as these stories may appear, I know from my own experience that there are far more stories of business owners risking and, unfortunately, losing everything they had.

Personal assets also include everything from cash on hand through investments to your home and recreational real estate. Which of these assets are cash or easily converted to cash? As members of a consumer society, most of us have collected things that we no longer use or enjoy. The summer property or ski chalet that no longer holds our interest, or the boat or snowmobile that drains money without yielding any enjoyment, could be sold and the proceeds used to finance the business.

Do a cost-benefits analysis of these underutilized assets. In many cases they can be sold, freeing up not only the equity but also annual maintenance costs. You will be surprised to find that without the costs of carrying that cottage or boat, your cash flow improves dramatically. You might also find that by eliminating the cost of carrying these assets, you will be able to rent comparable or better equivalents when and where you want them.

How Much Do They Really Love You?

The same report that indicated personal assets as the most frequently used source of startup business financing also showed that financing from family and friends was the second most popular source. This widely used source of financing a business is also the riskiest. Conventional lenders like banks and other financial institutions are in the business of lending money and have procedures in place to minimize their risks and to take action when borrowers default. They can and will continue to function if a small borrower defaults.

However, friends and relatives are not as likely to carefully evaluate the risk. They are helping you and expect you to repay them regardless of what happens. Failing to repay relatives or friends can and does jeopardize these relationships. Before taking this approach, ask yourself what would happen to your relative or friend if you cannot repay the money that is advanced to you? Can you live with these consequences?

Can You Lend Me a Few Dollars?

Conventional lenders include banks and other financial institutions that are in the business of lending money. They make their money from the interest they charge on loans. Thus, applying for a loan is a normal business transaction. Do not look upon borrowing money from an institutional lender as being similar to asking a relative or a friend for a favour. Borrowing is a business transaction: You are negotiating the use of the lender's money to purchase something you need to run your business. Treat it as you would any other business requisition.

Of all the information that goes into a lender's decision to grant a loan, the borrower's credit



Hot Tip

Given the importance of an applicant's credit history, it is surprising that many people do not even know what their credit reports contain. If you plan to apply for a loan, don't set yourself up for an unpleasant surprise. Find out in advance what your credit history shows.

To obtain a copy of your personal credit file, send a written request with copies of two pieces of identification to the following address:

Equifax Canada Inc.
Consumer Relations Department
Box 190, Jean Talon Station
Montreal, Quebec H1S 2Z2

You may also fax your request to the same company at (514) 355-8502, or obtain information by phoning (514) 493-2314 or (800) 465-7166.

history is the most critical. With a good credit history, your application *might* be approved. Conversely, with a poor credit history, your application will probably be declined.

By checking your own credit history before you apply for a loan, you will be able to clarify or be prepared to respond to any irregularities when asked by the lender. Once you have received a copy of your report make sure that all of the details are correct. If there are errors, follow the instructions included with the report to make the corrections. When you are satisfied that your credit history is in order, you can get on with your search for a loan.

The growing importance of small businesses in our economy has led to a wide variety of financial institutions prepared to lend money to small businesses. Today business loans are available from the following organizations:

- Chartered banks
- Business Development Bank of Canada
- Foreign banks
- Credit unions
- Private syndicates



Hot Tip

When applying for a loan, you must submit a business plan along with your application. Don't rely on the plan that you prepared in Chapter 7. Instead, prepare a plan using the format suggested by the lender. Although your format may contain all of the relevant information, the lender's staff is more likely to find the numbers they are looking for if the information is displayed in a format familiar to them. If they can't find the numbers, they may assume that the information is not there and simply refuse the loan application without looking further.

This growth in interested lenders may be attributed to the federal Small Business Loan program, which in effect makes qualified term loans to small businesses "government guaranteed." Some people believe that every small business should have a Small Business Loan at the early stages of its life. Take advantage of the competition among lenders. In order to obtain your business, one lender might be prepared to offer you more favourable terms than competing lenders will. Also, different lenders use different criteria. Just because one account manager is not interested in your business, it doesn't mean that all other account managers at all other lenders will also turn you down. If you have a good credit history and can offer satisfactory collateral, you can probably arrange a loan with one lender or another.

When borrowing money, there are several options available: a term loan, a demand loan, and a line of credit.

Term Loan

A term loan is similar to a mortgage in that both are in place for a set term or period of time and both are secured by a charge against specific assets. A mortgage is secured by a charge against real estate whereas a term loan is normally secured by a charge against business assets such as machinery, equipment, and vehicles.

However, unlike a mortgage, which is normally restricted to 75 per cent of the value of the real estate, a term loan could be obtained for the full amount of the security. Normally, mortgages bear a set rate of interest with payments also being a set amount. Term loans, on the other hand, may be subject to either a fixed or floating rate of interest and may also have variable payments. Further, unlike mortgages, term loans can often be increased or even paid off in advance. Clearly, term loans offer owners the flexibility they need in running their businesses.



Shop Talk

The relationships between bankers and their small business clients have always been the cause of good news/bad news scenarios. The good news is that in most cases, business owners could not have succeeded without the support of their bankers.

In my life as a lawyer, I experienced the bad news scenario when I had more than my share of disputes with bankers. I have dealt with individual managers and account managers who lacked the competence to succeed in running a lemonade stand in August. Some bankers have outright lied to me; others have deliberately or innocently misrepresented situations. One branch manager even seized funds that I held in trust for clients because he was concerned about a business unrelated to my law practice, in which I was involved.

Fortunately, most bankers are embarrassed and even angry at the antics of these incompetent and unprincipled bank employees. Generally speaking, today's account managers appreciate small business and will work hard to understand you and your business needs. They also understand that working with small business is good for them and the bank, not something they simply must endure as part of their job.

Demand Loan

In these kinds of loan arrangements, the lender has the right to demand payment of the outstanding balance at any time, with or without notice. Although it may carry a flexible interest rate, there is little flexibility when it comes to repaying the loan when the lender demands payment. Demand loans are best used to cover short-term temporary cash needs. Because they can be called in at any time, it is not good management practice to base a large portion of your financing on demand loans.



Entrepreneur Beware

Credit cards are the most expensive way to finance your business. Therefore, apart from using your credit card to charge relatively small operating expenses that will be paid when due, this method should not be used.



Building Block

In dealing with your banker, it is important to develop and maintain a relationship of mutual trust and respect, starting with your first contact. If you want your banker to trust and respect you, try demonstrating your trust and respect for him or her. Regardless of the reams of papers that go into applying for and maintaining a loan, in the final analysis, it is your personal credibility and that of your banker that makes or breaks the relationship. Work hard to ensure that this credibility is there from the beginning.

Line of Credit

A line of credit is a flexible and popular source of funding for small businesses. Except for the lower interest rates, using a line of credit is like using a credit card to obtain cash advances. When you need funds, you can draw against a predetermined credit limit without having to ask your banker for approval. When you have excess funds, you simply repay the amount borrowed together with accumulated interest. As long as there is money flowing into your business, a line of credit will allow you to cover the inevitable temporary shortfalls in your cash flow.

If you are tempted to get a cash advance from your credit card to pay a critical account, make sure that you will have the funds to repay the cash advance almost immediately. And if you are that sure that you will receive the funds, why not talk to your banker and arrange a loan until the funds arrive? Paying high credit card interest rates can seriously impair your cash flow.

Who Wants to Invest in My Business?

Realistically, there are only two equity financing options available for small business. One option is asking your friends, relatives, and network contacts to invest in your business. Unlike asking these people to lend you money, this approach involves asking them to buy a share of the business in return for a share of the profits. However, unlike traditional investors, friends, relatives, and network contacts who invest in your business are, in fact, investing in you, and they expect to get their money back, regardless of what happens to your business.

Should you choose to follow this approach, make sure that the investment is properly documented:

This means properly prepared subscriptions, minute book records, and actual share certificates. Also make sure that in your zeal to attract investors, you do not violate the provisions of any applicable securities legislation. This legislation prohibits public

offerings of shares without specific conditions being met. Although there is usually an exception for shares to individuals with whom you may have an existing relationship, it is your responsibility to ensure compliance with all relevant legislation. Check with your lawyer if you have any doubt about whether or not you can proceed with a sale of shares.



Shop Talk

Ed was the pastor of a small congregation in a rural area. He also ran a small book store that was having trouble meeting its operating expenses, let alone generate a profit. After being refused a bank loan, Ed came up with the idea of incorporating his business and selling shares to the public. He placed an ad in the local newspaper inviting interested readers to invest in his book store.

Ultimately, his activities came to the attention of the provincial regulators who charged him with several violations of the Securities Act. Fortunately, the money he had collected had not yet been spent and it was returned to the investors. Unfortunately, the very limited cash flow of the business was redirected to help pay legal expenses in defending the charges, and the business was forced to make an assignment in bankruptcy.

The second option is to take in a partner-shareholder who can inject additional capital into your business startup. The same considerations about working with a partner discussed in Chapter 5 are applicable in taking in a partner as a shareholder. It is also important to make sure that there is a proper shareholders' agreement in place to clarify the rights and responsibilities of you and your partner-shareholder. For enforceability, it is best to have the agreement approved by each party's lawyer.

Where Else Can I Get Financial Help?

Government Funding

With governments at all levels focused on debt-reduction, most sources of business financing have been eliminated. Limited public funds are more likely to be committed to providing training and obtaining advice. There are, however, situations in which governments will provide funding to supplement the equity in a business. Check with the appropriate Canada Business Service Centre listed in Appendix B to see if there is any funding available in your jurisdiction.

Leasing Equipment

Leasing has become a very popular financing option. It has been estimated that more than 10 per cent of all business equipment is now leased. Virtually all types of business equipment can now be leased, from laptop computers to large specialized machinery. In most cases, the vendor can connect you with a leasing company willing to purchase the equipment and lease it to you. In actual operation, the leasing company owns the equipment and you simply pay for the use of it. You might also have an option to purchase the equipment at the end of the lease.

Leasing offers similar, and sometimes superior, benefits to both mortgage financing and term loans. The table below outlines the benefits of leasing compared with these financing options.

Leases Compared with Mortgages and Term Loans

Item	Lease	Mortgage	Term Loan
Rates fixed for duration of term	yes	yes	no
Term and payments flexible	yes	no	yes
Free up working capital	yes	no	sometimes
Additional collateral required	no	no	sometimes
Straightforward documentation	yes	no	no
Payments deducted as expenses for income tax purposes	yes, with some exceptions	interest only	interest only

Once your business is well established and you have a good track record, you will have more financing options available. These additional options include factoring (the sale of your accounts receivables), franchising, and going public (selling shares to the public). In the meantime, your challenge is to get your business up and running so that you will qualify for these options when you need them.

The Least You Need to Know

- The first place to look for financing is with your own resources.
- Friends and relatives may help you but they will expect to be paid back regardless of what happens to your business.
- Traditional lenders are in the business of lending money. They base their decisions on established business criteria.
- It is difficult to locate individuals who are willing to invest in your business.
- There is little government financial assistance available.



Making Sense of Financial Statements

In This Chapter

- ▶ Why you need financial statements
- ▶ Startup, forecasting, and historical statements
- ▶ Defining your revenue and expenses
- ▶ How to properly use the information in your statements
- ▶ Choosing an accountant

Whether you love or hate reading them, financial statements are critical elements of your business. Don't ignore them just because you don't like preparing them or cannot understand them.

Potential lenders or investors will rely on your statements when making their decisions to advance funds to you. And you will use them to monitor your progress and to evaluate your performance. Forward-looking statements—such as sources and uses of funds, and cash flow forecasts—allow you to plan as much as it is possible the money that will flow into and out of your business. Historical statements will allow you to see how your actual results compared with your anticipated or projected results.

A good accountant can be a valuable resource as you run your business. However, like choosing any professional advisor, take care in selecting the accountant who is right for you and your business.

Why You Need Financial Statements

The statements you prepare prior to starting your business will show where you will get the money to operate your business and what you will do with this money. They also illustrate how much revenue you hope your business will generate and how much money it will take to generate this revenue. You will use this information to prepare and follow a budget and manage the cash that flows into and out of your business. Third-party lenders or investors will use this information to determine whether or not to lend you money or invest in your business.



Building Block

If you run a business, there is no escaping financial statements. They must be prepared from startup to windup. You can prepare them yourself, or you can have someone else produce them based on your sales records, receipts, and cheque stubs. It really doesn't matter who prepares them, as long as they are prepared.

The financial statements produced once your business is operational will measure your performance. They will help you assess how successful you have been in achieving the goals that you have set for yourself. Investors will use the statements to decide whether they are prepared to continue to support you or if they want their money back. If you need money to expand your business, potential investors or lenders will use your statements to decide whether or not to help you.

And if you are looking to merge or sell your business, your financial statements will be critical elements of the merger or sale discussions.

Forward-Looking Statements

Forward-looking statements are the statements that you initially prepare as part of your business plan.

They detail where you will get the money you need

to start and operate your business and what you will do with the money. They also forecast the revenue you hope your business will generate and how much money it will take to generate this revenue.

Sources and Uses of Funds

This statement shows where the money is coming from to start your business (source) and what these funds are purchasing (uses).

The following format can be easily adapted for spreadsheet use. Customize the statement by adding elements that apply to your business and deleting those elements that do not apply. This statement is normally prepared only when you start your business. Below is an example of a sources and uses of funds statement.

Q & D Services

Sources and Uses of Funds

Sources

Owner's equity	\$ 5 000
Bank loan	<u>5 000</u>
Total funds from all sources (A)	\$10 000

Uses

Office furniture	\$ 1 500
Office equipment	1 000
Specialized equipment	500
Office supplies	500
Computer software	600
Stationery	500
Insurance	500
Legal, accounting, consulting	<u>1 000</u>
Total uses of funds (B)	\$ 6 100
Working Capital (A – B)	\$ 3 900

Working capital is the amount of money available to you to operate your business. This total is entered in the cash flow forecast statement below.

Forecasting Statements

These statements are attempts to predict what the financial results of your business will be for a set period of time. Like all attempts to forecast the future, they are subject to a wide range of unknowns. They will, however, serve as indications of what you hope to achieve. They will also serve as budget guidelines to help you control spending.

When you start your business, these guesstimates will in effect be the results that you would like to achieve. They usually reflect your hopes and dreams more than actual fact. Once you have run your business for a complete year you will have some actual results, which will be the basis of your forecasting for the coming year.



Building Block

On one hand,

- Regardless of the payment provisions on your invoices, most clients will pay thirty to sixty days after they have been invoiced.
- Some clients, especially government offices, will pay you more than sixty days after the invoice date.
- Some clients will not pay you at all.
- Until you have established a significant profile and clients come to you instead of you chasing them, few clients will pay you anything in advance.

On the other hand,

- Some of your suppliers will demand pre-payment.
- Most of your suppliers will demand payment in thirty days or less.

Projecting revenue for the first time is the most difficult aspect of financial forecasting. Your projections will be based on such factors as how much you charge for your goods and services and what volume of revenue your total services will yield. Unless your past experience enables you to determine your revenue, your financial projections will not be based on reliable information.

In this case, the best approach is to work from what *is known* to what *is not known*. Thus, before addressing revenue projections, which are difficult to determine for the first time, it is best to start by calculating monthly overhead amounts, which are easily identified. Having determined the monthly overhead, it is a simple task to project revenue to meet or exceed these overhead figures.

The example on the next page details typical expense items. It is likely that not all of them will apply to you and your business. And it is possible that your business will have expense items that are not included in this list. As was the case with startup expenses, customize this list to meet your own needs. Amounts for individual items can be based on estimates provided by suppliers or, alternatively, can be estimated as a percentage of total expenses. Although some of the expenses such as accounting/legal and dues/subscriptions are paid in annual installments, they should be allocated monthly.

Cash Flow Forecast

As its name suggests, a cash flow forecast is a forecast of cash flowing into and out of your business. The forecast is based on your predictions of when you expect to receive payment from your clients and when you expect to make payments to your suppliers and to yourself.

Completing your cash flow forecast is another exercise that is easier with the use of a computer spreadsheet. If you plan to complete the forecast manually, you should prepare your own customized form using descriptions of your specific cash receipts and revenues. Make a number of photocopies of the form and complete it using your calculator, pencil,

Estimate of Monthly and Annual Expenses

Expense Item	Monthly	Annual
Accounting/legal	\$ 83	\$1 000
Bank charges	300	3 600
Depreciation	100	1 200
Dues/subscriptions	10	120
Insurance	50	600
Marketing/sales promotion	150	1 800
Miscellaneous	100	1 200
Postage/courier	50	600
Printing/copying	50	600
Personal development	100	1 200
Stationery/office supplies	50	600
Telephone	100	1 200

and eraser. If nothing else, this exercise will convince you of the need for a spreadsheet program on your computer.

Prepare your cash flow forecast using as much detail as you believe appropriate. In your first cash flow forecast you can include the details from your sources and uses of funds statement. In subsequent cash flow statements, include these details only if you anticipate contributing additional personal cash to the business or obtaining new borrowings.

A sample cash flow forecast for a six-month period is provided on the next page.

Here are some of the terms you will use in your cash flow financial statements:

Cash receipts. These should be recorded in the month in which you expect to receive payment. These amounts are not likely to be equal for the entire twelve months. Record when you anticipate having high revenue and low revenue.

Cash disbursements. These should be recorded in the months in which you anticipate making the actual payment for expenses.

Personal draw. This represents the compensation that you will receive for managing the business and delivering services to your clients.

Q & D Services Cash Flow Forecast

Months 1–6

	<i>Month 1</i>	<i>Month 2</i>	<i>Month 3</i>	<i>Month 4</i>	<i>Month 5</i>	<i>Month 6</i>
Cash on hand	\$3 900	\$2 122	\$ 844	\$ 66	\$–212	\$ 510
Sales		500	1 000	1 500	2 500	3 000
Cash received	3 900	2 622	1 844	1 566	2 288	3 510
Accounting/legal	83	83	83	83	83	83
Bank charges	75	75	75	75	75	75
Dues/subscriptions	10	10	10	10	10	10
Insurance	60	60	60	60	60	60
Marketing/promotion	150	150	150	150	150	150
Miscellaneous	100	100	100	100	100	100
Postage/courier	50	50	50	50	50	50
Printing/copying	50	50	50	50	50	50
Personal development	100	100	100	100	100	100
Stationery/office supplies	50	50	50	50	50	50
Telephone	100	100	100	100	100	100
Total expenses	828	828	828	828	828	828
Loan repayment	100	100	100	100	100	100
Owner's draw	1 000	1 000	1 000	1 000	1 000	1 000
Cash required	1 928	1 928	1 928	1 928	1 928	1 928
Cash surplus/deficit	\$1 972	\$ 694	\$ –84	\$–362	\$ 360	\$1 582

Once you start to incur expenses, there are two approaches to recording them.

Cash. The cash approach is based on cash flow. Expenses are recorded when paid and revenue is recorded when the money is received and deposited into your bank account. Without a record of when the expenses were actually incurred and the goods or services actually sold, financial statements do not accurately reflect high or low sales or activities for different periods.

Accrual. The accrual approach involves recording the expenses when incurred, regardless of when the expense is paid. It also involves recording revenue when the sale or

work is completed, regardless of when the bill is actually paid. In this case, income and expense statements accurately reflect the volume of activity for specific intervals such as months or quarter-years.

You can choose whatever time frame you wish for your cash flow forecast. However, periods that are too short might not reflect any quarterly or half-yearly highs and lows. Conversely, periods that are too long might prove to be inaccurate. A six-month time frame is good to start with. This allows you to modify the forecast as your business develops. After you have been in business for a full year, you will have a better idea about what time frames are appropriate for your particular business.

Initially, the unused startup funds represent your cash on hand. From that point onward, the cash left over at the end of one month becomes the cash on hand for the beginning of the next month.

Note in the example on the previous page that a cash shortage is projected for months three and four. In anticipation of this shortage, the owner can cut back on expenses in preceding months, plan to take out less money in the cash-deficit months, or advance some personal funds to cover the shortage. By knowing about potential cash shortages before they arise, it will be easier to deal with them when and if they do arise.

Historical Statements

Unlike startup and forecasting statements, these statements report your actual operating results. In appearance, your profit and loss statement closely resembles your startup and forecasting statements. But instead of projecting results that you would like to achieve in the future, your profit and loss statement records your actual revenue and expenses over a set period of time. The most common time periods for financial statements are monthly, quarterly, and annually. In the simplest of terms, the statement of profit and loss is based on the formula $\text{Revenue} - \text{Expenses} = \text{Profits}$. The statement below is an example of Q & D Services' actual operating results.



Entrepreneur Beware

Avoid taking too much money out of your business too soon. To ensure that the business maintains a strong cash flow, set the amount of the draw at a level that covers what you require for household and personal expenses. As the business begins to show a profit, you can pay yourself a bonus from any accumulated cash surplus.



Building Block

Regardless of whether you choose the cash or accrual approach to recording revenue and expenses, follow it consistently. Check with your accountant to decide which approach is best for your business.

Q & D Services Statement of Revenue and Expenses

For Year One	Forecast	Actual	Difference
Sales	\$26 500	\$25 900	\$ -600
Expenses			
Accounting/legal	1 000	1 000	0
Bank charges	900	900	0
Dues/subscriptions	120	120	0
Insurance	720	720	0
Marketing/promotion	1 800	2 400	600
Miscellaneous	1 200	1 600	400
Postage/courier	600	450	-150
Printing/copying	600	700	100
Personal development	1 200	1 000	-200
Stationery/office supplies	600	400	-200
Telephone	1 200	1 800	600
Total expenses	\$ 9 940	\$11 090	\$ 1 150
Profit	\$16 560	\$14 810	\$-1750

The comparison of the forecast or budget amounts to the actual amounts helps evaluate the forecasting process and actual operating results. Note that the sales were lower than forecast and overall expenses were higher. The actual operating results will form the basis for the next year's cash flow forecast.

The balance sheet illustrates how your assets and liabilities have changed as a result of your business activities. Using the simplest of terms, the balance sheet is based on the formula $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$. Below is a typical balance sheet.

Note that in the balance sheet the assets are lower than forecast while the liabilities are higher. Although the owner's equity is lower than forecast, it is still higher than the previous year. However, as the owner, you will want to review your operations to determine how these changes came about. If the change is simply because of poor forecasting skills, don't worry—your forecasting will improve with practice.

Choosing an Accountant to Prepare and Interpret Your Statements

A good accountant can save money for any business. In many cases, their fees can be recovered through the savings and strategies that they identify. Useful as accountants

R & D Enterprises Balance Sheet

For First Two Years	Prior Year	Budget	Current Year	Difference (From Budget)
ASSETS				
Current assets				
Cash on hand	\$ 25 000	\$ 35 000	\$ 15 000	\$-20 000
Accounts receivable	50 000	55 000	54 000	-1 000
Inventory	50 000	40 000	45 000	5 000
Total current assets	<u>125 000</u>	<u>130 000</u>	<u>114 000</u>	<u>-16 000</u>
Fixed assets				
Land & buildings	100 000	95 000	95 000	0
Furniture & fixtures	50 000	45 000	47 000	2 000
Equipment	40 000	40 000	47 000	7 000
Total fixed assets	190 000	180 000	189 000	9 000
Total assets	<u>\$ 315 000</u>	<u>\$ 310 000</u>	<u>\$ 303 000</u>	<u>(\$ 7 000)</u>
LIABILITIES				
Current liabilities				
Accounts payable	75 000	69 000	80 000	11 000
Short-term notes payable	10 000	10 000	10 000	0
Total current liabilities	<u>85 000</u>	<u>79 000</u>	<u>90 000</u>	<u>11 000</u>
Long-term liabilities				
Mortgages payable	70 000	65 000	65 000	0
Long term notes payable	45 000	0	20 000	20 000
Total long-term liabilities	<u>115 000</u>	<u>65 000</u>	<u>85 000</u>	<u>20 000</u>
Total liabilities	<u>\$200 000</u>	<u>\$144 000</u>	<u>\$175 000</u>	<u>\$ 31 000</u>
Owner's equity	\$ 115 000	\$ 166 000	\$ 128 000	(\$ 38 000)
Total liabilities and net worth	<u>\$315 000</u>	<u>\$310 000</u>	<u>\$303 000</u>	<u>(\$ 7 000)</u>



Entrepreneur Beware

It is very risky to measure the well being of your business simply by how busy you are. Just because you are busy, it does not mean that you are making any money or that you can continue to stay in business. Use your financial statements to measure the financial health of your business.



Hot Tip

To find accountants to help you, ask friends and business associates for suggestions or ask your lawyer or similar advisors. You might also check community newspapers and local business directories for advertisements and listings of public accountants.

Accounting firms that advertise in these kinds of publications tend to be smaller and more receptive to working with very small businesses. Pick four or five accountants who you think might suit your business needs and arrange to speak to each one, either in person or by phone. Good accountants are willing to invest time in meeting with prospective clients to ensure that they can work together.

may be, though, it can be difficult to choose the best one for your business.

The first step is to develop a checklist of your needs. This involves determining what accounting services you need. Your initial requirements might include setting up your bookkeeping system or helping you to prepare budgets and cash flow statements. Although you can certainly prepare this material yourself, for the sake of expediency, you might choose to have an accountant do it for you. On a continuing basis, your accountant could provide services such as preparing financial statements or reviewing statements that you have prepared, and completing and filing tax returns. You may also occasionally require assistance in dealing with the Canada Customs and Revenue Agency, making a presentation to lenders or investors, or evaluating the purchase or sale of a major business asset or even another business.

Finding an accountant who can meet these needs can appear to be overwhelming. Typical directories like the Yellow Pages and lists supplied by professional associations could list hundreds if not thousands of accountants. As a rule, it is better to deal with accountants with a professional designation. To earn such a designation—chartered accountant (CA), certified general accountant (CGA), or certified management accountant (CMA)—it is necessary to successfully complete standard exams after years of training and study. Thus, individuals with a professional designation have earned the right to identify themselves as qualified to offer financial advice. It is also reasonable to assume that professionally designated accountants continue to upgrade their skills and knowledge.

When interviewing an accountant, consider the following questions:

- Does the accountant have experience with your type of business?

- After describing your needs, does the accountant make comments and suggestions that indicate an understanding of your type of business?
- What are the accountant's standard billing procedures? Once you have described the nature of the business/requirements, can he or she provide you with an estimate?
- Who will actually do the work, the accountant or other staff members?
- Is the prospective accountant prepared to give you the names of other clients in a similar or related line of business? If so, check with these companies to find out whether the accountant is accessible, meets deadlines, and completes work within the cost estimate.
- Is the accountant open to the idea of using other experts?



Shop Talk

Diane runs her own accounting practice serving small business owners. Instead of simply offering bookkeeping and accounting services, she teaches her clients to perform these functions themselves using client-friendly software. She concentrates on reviewing client-prepared statements and offering suggestions about how her clients can increase their income and decrease their expenses. In many cases, this involves introducing her clients and contacts to each other, facilitating their doing business together. These introductions continue to help her clients' businesses grow and prosper. Diane's clients also introduce her to their contacts, facilitating the growth and development of her business. Diane has found that in adding value to her clients' businesses everyone involved benefits.

From these discussions you will learn that accountants offer different services at different rates, and you can assess their individual responses to determine which one can best meet your needs.

As well as providing accounting services, a good accountant will also add value to your business. For example, this can be done by

1. Using your service or product and giving you honest feedback on the quality of your product or work;
2. Referring business to you;
3. Actively linking you with other clients;

4. Sponsoring training and information seminars that will help your business grow;
5. Sending regular newsletters containing educational information in his or her field of expertise;
6. Answering your questions in words you can understand or referring you to appropriate resources;
7. Providing a full range of services.

The Least You Need to Know

- Financial statements are helpful to you in monitoring your progress of where you want your business to be, and are also helpful to potential investors and lenders when making their decisions about advancing funds to you.
- Forward-looking statements indicate where you would like your business to go.
- Historical statements show your actual operating results.
- A good accountant can be a valuable asset: Use care in selecting the right one.



Don't Take Risks—Manage Them!

In This Chapter

- ▶ Risk management defined
- ▶ How can you manage risks?
- ▶ Risks in your life and in your business
- ▶ Typical small business insurance coverage
- ▶ Other types of insurance to consider

There is a perception that people who start and run their own businesses are risk takers. This term may accurately describe those individuals whose businesses are driven by unbounded optimism and instinctive knee-jerk reactions to new business opportunities. However, nothing could be further from the truth in describing those people who succeed in their own businesses over the long term. These people don't take risks—they manage them.

Risk management involves eliminating risks or reducing them to a manageable level. The process starts with understanding the risks that you face and taking steps to reduce these risks, if not entirely then at least to a manageable level. Although there are some risks that we cannot control, we can plan our responses to these risks when and if they occur. This means that part of your normal planning involves contingency plans that will allow you to respond effectively to risks beyond your control.

Insurance can help reduce if not minimize the risk of some kinds of losses. Property insurance will cover risks of loss to property and third parties. As well, special business

provisions can help insure specific kinds of business losses. Life and casualty insurance is good for providing benefits if poor health prevents you from running your business.

What Is Risk Management?

What does managing risks mean? It is not something new, nor is it unique to business. Essentially it means either avoiding or eliminating risks entirely or reducing them to acceptable levels.

We *avoid* risks by not walking into busy traffic or not consuming food or water we know to be contaminated. Thanks to advances in medical science we have *eliminated* the risk of dying from horrible diseases like the bubonic plague that killed so many people in the dark ages.

We *reduce* risks by wearing seatbelts when we drive a motor vehicle and make sure that our hands and work surfaces are as clean as possible when we prepare food.



Shop Talk

Several years ago, my mother died suddenly of a heart attack. Prior to that, my father and brother had both suffered heart attacks. Clearly, with this family history, I was also at risk of suffering a heart attack. After my mother's death, I went for a long-overdue physical exam, changed my eating habits, and started to exercise regularly. Now my family doctor and I believe that although my risk of heart attack has not been eliminated (try as you may, you just can't change your family medical history) it has been reduced to an acceptable level.

In living our lives, we don't blindly expose ourselves to risks that could result in serious injury or even death. We take steps to avoid, eliminate, or reduce the risks we face. Is it not reasonable to follow the same approach in running your own business? Successful business owners do not blindly take risks that could bring their personal and financial world tumbling down around them. They take steps to avoid, eliminate, or reduce the risks they face. And so should you.

So How Can You Manage Risks?

Effective risk management starts with understanding the risks you face. Understanding your risks means researching and gathering information about them. Is it possible that

despite your enthusiasm about your goods or services, customers will not buy from you? Of course it is. To address this issue, do your homework to find out if the goods or services are currently being purchased in your marketplace. Who are the customers? Why do they purchase? From whom do they purchase? Why should they purchase from you?

Do these questions sound familiar? They should—they represent the issues that you addressed in preparing your business plan in Chapter 7. As well as serving as a blueprint for how you will develop your business, your business plan is a feasibility study that allows you to gather information about the risks that you will face. Once you understand your customers, you can take action that will eliminate or reduce the likelihood of those customers not purchasing your goods or services.

What other uncertainties does your business face? Potential customers might not know about you or your business. Research or gather information about your potential customers in order to learn how to communicate with them. This will help you with your promotional activities as addressed in Chapter 17. What about customers who need goods or services that you do not as yet offer? Find out what they need and want and then use the information in Part IV of this book to find a way of extending your business to help your customers.



Building Block

Once you understand the nature of the risks that you face, you will find that in many cases you can take specific action to either totally eliminate or at least reduce the risk. To take the appropriate action, you must thoroughly understand what you are facing. There is only one way to develop this thorough understanding: proper research and information gathering.

What About Those Risks Beyond My Control?

In life and in running a business, we all face risks that are beyond our control. Even if we are wearing our seatbelts, we still risk being involved in a collision with other motor vehicles. Although I am doing everything within my power to prevent suffering a heart attack, because of my family medical history I am still at risk.

Since these factors are beyond our control does it mean that we stop driving? Or in my case, do I abandon a healthier lifestyle and accept a heart attack as inevitable? Of course not.



Building Block

Having done what we can to reduce the risk to an acceptable level, we get on with living our lives, trying not to worry about the risk that still exists. Worrying about things that you cannot control is a total waste of emotional energy.

Will a downturn in the economy affect your business? Most likely. What about some new legislation or taxes? Once again, very likely. Does that mean that you shouldn't start a business because it might be wiped out by an economic downturn? Or that you should wind up your existing business because of the new legislation or taxes? Of course not.

Having done what you can to reduce the risk to an acceptable level, you get on with running your business, trying not to worry about any risks that still exist.

What's Normal?

We have all heard and perhaps even used the expression "I will be so happy when things get back to normal." This comment is usually made while dealing with an unusual or unexpected difficulty. The expectation is that once the difficulty has been resolved, a problem-free state of normalcy will return.



Building Block

Businesses are not static. They are constantly changing and developing, continuing to present new problems and challenges. The only time that a business is problem-free is during those unlikely periods when its owner is away from it and not thinking about it.

I believe that the reverse is true. Dealing with problems and difficulties is normal and the absence of problems is abnormal. Life as we know it is not static. As we live our lives we continue to grow and develop. Growth and development invariably result in our having to learn new ways of doing things and unlearn established approaches. Satisfying and enriching as learning may be, it also brings new problems and challenges. In today's rapidly changing world, we must be constantly responding to new developments in virtually every aspect of our society. Thus, responding to change and the problems associated with these changes is the norm. On the other hand, freedom from problems can only be found when we escape from our normal activities for a day off, a weekend escape, or a well-deserved vacation.

Assuming that problems are the norm when running a business, what implications does that have for risk management? Essentially it means that as well as planning how you will eliminate or reduce your risks, you must also develop a contingency plan to address different problems as they arise. If your banker declines your loan, what will you do? If your customers don't buy your goods or services, what will you do? What will you do if your customers buy your goods or services but don't pay you?

What other risks does your business face? What will you do if they occur? By developing a contingency plan outlining how you will handle different risks, then if they arise you can manage them effectively.

You will be a double winner if it turns out that you don't use your contingency plan. First, you can run your business more confidently knowing that you are prepared for

most risks. Second, the process of preparing your contingency plan improves problem-solving abilities, adding that type of experience to your current set of skills. As a result, if in the future you face a problem or a risk that you were not anticipating, you will have the confidence and the know-how to manage it effectively.

Property Insurance Is Good

Insurance is one of the most popular ways of protecting yourself against risks. Most insurance companies provide coverage for small and home businesses. These companies have major limitations for coverage on business property, such as stock and equipment, and for liability, such as slip-and-fall injuries. If requested, however, most insurers will extend coverage to provide protection for incidental business use in the home. The premium for this coverage is usually quite nominal.

Coverage is also available for assets such as computers and furniture that are used in a home business. You can choose either *all risks* insurance, which provides very broad coverage, or *named peril*, which covers only those risks specified. You can choose between replacement cost and actual cash value. You can also add coverage for property, such as portable computers or stock in transit that is away from your main location.

If the risks of your business are not too great, many companies can provide home-based business extensions to existing homeowner policies. Some insurers have also introduced small business packages that cover a larger range of businesses, not just the large businesses they used to cover. These policies might also be suitable for home businesses.

Protection is also available for injury to third parties or damage to their property while in your home office or while you are at your customers' places of business. Your homeowner policy, extended for the home-business operation, would usually provide this protection. Your small business or commercial policy containing business liability insurance coverage would also provide it.



Hot Tip

Consider purchasing business-interruption insurance. This is protection from losing profits and incurring additional expenses after an insured loss such as a fire or explosion. Many small-business packages include this coverage. Other types of coverage also fall under the definition of business interruption. For a home-based business, extra-expense coverage would be important to cover the extraordinary expenses incurred as a result of an insured loss. This coverage, which might include rental of temporary facilities or moving expenses, would help keep the business operating. Review your situation with your own broker to make sure that you have the proper coverage.



Entrepreneur Beware

Property insurance can be very complex and confusing. Avoid buying coverage for risks that you will not face. If, for example, you do not store inventory, why should you pay a premium for this type of coverage?

In either case, you are protected against lawsuits resulting from injury or damage to third parties, whether you are on their property or at your office. Note that if your business is incorporated, the corporation either requires its own policy or it should be included in the home-business extension of your homeowner policy.

If you provide advice, or knowledge-based services, consider separate professional liability coverage known as *errors and omissions* insurance. This coverage is intended to protect you from losses that your customers might suffer as a result of your advice or services. The premium is based largely on the risk involved. The larger the risk, the higher the premium.

The entire issue of liability is fairly complex, with many conditions and exclusions. Consult your own broker for advice on specific situations.

Typical Small-Business Insurance Coverage

Property

Building and contents
Accounts receivable
Building damage by theft
Debris removal
Electronic data processing equipment
Fire department service charges
Overnight money coverage
Personal property of employees
Property in transit
Valuable papers and records

Liability

Bodily injury and property damage
Personal injury
Medical payments
Tenant legal liability
Advertising liability
Business interruption
Actual financial loss
Profits
Gross earnings
Crime
Employee dishonesty
Loss inside/outside premises
Counterfeit currency
Depositor's forgery
Safe burglary

Life and Casualty Insurance Is Also Good

For most people, going through the transition from being an employee to becoming self-employed means losing group insurance coverage. What insurance should you use to replace it? In fact, what insurance does anyone who is self-employed need?

In buying insurance, try to protect your essential assets. Your most important asset is your earning power. Without insurance protection, you and your family may suffer unbearable or irreparable harm.

Before buying life insurance, put together your personal financial information and review your family's needs. There are a number of factors to consider when determining how much protection you should have. These include any immediate needs at the time of death, such as final illness expenses and burial costs. Also, since some self-employed people pay income taxes in arrears, there may be unpaid income taxes on death.

There should also be sufficient funds for a readjustment period, to finance a move or to provide time for family members to fund ongoing financial needs, such as monthly bills and expenses, day-care costs, college tuition, or retirement. Although there is no substitute for a careful evaluation of the amount of coverage needed to meet your needs, one rule of thumb is to buy life insurance that is equal to five to seven times your annual gross income.

Since there are various kinds of insurable risks, there are various kinds of insurance policies to consider. It is also important to take account of your wishes, responsibilities, and time horizon when compiling an insurance portfolio.

The cheapest form of life insurance is term insurance. But if you need protection for the long run, you are probably better off with permanent or whole life insurance.

Life insurance can also provide funds that will allow for the sale of your business either to a stranger or to an employee. Some forms of life insurance are like savings plans, and you



Hot Tip

Consider purchasing new types of insurance, such as critical illness and long-term care insurance. These policies are similar to traditional disability plans. Today more policies are available to self-employed people. Almost everyone can buy at least some kind of disability insurance, family extended health and dental care, and even business overhead protection.



Entrepreneur Beware

Many people are overinsured. Avoid buying the wrong kind of insurance or more coverage than you really need.

accumulate money, which can be withdrawn at a later date. This type of policy will provide money to allow you to train the purchaser on the understanding that once trained, the purchaser will pay you the agreed purchase price. You can then retire on the sale proceeds.

Many business owners have agreements that give employees the right to purchase the business on their death. In this case, the employee would insure the life of the business owner. When the business owner dies, the insurance proceeds would be used to purchase the business from the estate. Of course, any life insurance that you have in place while running your business will survive the sale or closing of your business. The proceeds will be available for named beneficiaries in the event of your death.

Common Insurance Terms

Agent. An authorized representative of an insurance company who sells and services insurance contracts.

Broker. A sales and service representative who handles insurance for clients, generally selling insurance of various kinds and for several companies. Brokers resemble agents, except that, in a legal sense, brokers represent the party seeking insurance rather than the insurance company.

Cash value. The amount available in cash upon surrender of a policy before it becomes payable upon death or maturity.

Disability insurance. A form of health insurance that pays the policyholder in place of his or her usual income if the policyholder can't work because of illness or accident. Usually, policies begin paying amounts after a waiting period stipulated in the policy, and pay a certain percentage of the policyholder's usual income. Sometimes employers provide this, but it's also available as a separate coverage.

Group life insurance. Life insurance on a group of people under a master policy, which usually does not require medical examinations. It is typically issued to an employer for the benefit of employees, or to members of an association; for example, a professional membership group. The individual members of the group hold certificates as evidence of their insurance.

Term insurance. A plan of insurance that covers the insured for only a certain period of time (term), not for his or her entire life. The policy pays death benefits only if the insured dies during the term.

Underwriting. The underwriting process evaluates the likelihood that an insured event will occur, determines its likely cost, and develops an appropriate premium for the coverage that is competitive in the marketplace and remunerative to the insurance company writing the policy. For some standardized coverages that are highly competitive, underwriting may be somewhat beside the point—the policy has to be

priced according to marketplace pressures if the insurer wishes to remain in that line of coverage. Underwriting still plays a substantial role for many coverages, however, even those in the increasingly competitive businesses of auto, home, and term life insurance. Underwriting differences account in part for the substantial differences in insurance premiums for comparable coverages.

Whole life insurance. A plan of insurance for life, with premiums payable during a person's entire life.

The Least You Need to Know

- Risks can be managed by eliminating them or reducing them to a tolerable level.
- There are some risks that are outside of your control; you can, however, manage your response to these risks.
- Good planning includes contingency planning.
- Property and also life and casualty insurance can protect against specific named losses.

Part 3

Growing Your Business

Having started your business, your next challenge is to attract customers. Essentially, this process involves identifying what your customers need and want from you and doing a better job of satisfying your customers than your competition does. This is a constant process that requires ongoing communications with customers and includes monitoring how satisfied they are.





Marketing Is More Than Advertising and Selling

In This Chapter

- ▶ The history of marketing
- ▶ How do the different approaches of marketing fit with your small business
- ▶ What other businesses—big and small—are doing
- ▶ How to find your specific marketing philosophy

Unlike small businesses, which pre-date the Industrial Revolution, marketing is a relatively new business activity. The concept was first developed late in the 1800s and came into full bloom during the last century.

The growth of mass production led to the belief that customers would buy low-priced and widely available goods. This belief is still prevalent, and managers of production-oriented organizations concentrate on achieving high production efficiency and wide distribution coverage. Another approach is based on the belief that if left alone, consumers will not buy enough of the organization's products. This approach, favoured by sales and advertising people, involves aggressive promotional activities. A more contemporary approach, also more suitable for small business, is based on meeting customers' needs and wants better than the competition.

Marketing is important to your business: Not only does it help maintain your existing customer base, it helps attract new customers. And marketing is no longer just for businesses. Many public and nonprofit organizations undertake marketing programs to promote their work and increase their profiles.



Shop Talk

Marketing, as a business activity, can be traced to the Agricultural Age. The process began when farmers exchanged their own excess production for the excess production of other farmers. With the passage of time, trade included things obtained through fishing, hunting, mining, and manufacturing.

When the concept of marketing was first treated as an academic discipline—in the 1880s at the University of Wisconsin—it was again driven by agricultural concerns. Area dairy farmers were concerned that the cheese for which they received 10¢ a pound was selling in major U.S. cities for \$1 per pound. Back then, marketing was considered to be everything that happened to a product after it left the loading dock and before the consumer received it.

Big business organizations devote extensive resources to marketing activities. Lacking resources to dedicate to marketing, owners of small businesses must take a different, simpler approach. For small businesses, anything that they do to get more business can be considered marketing.

Approaches to Marketing

Typically, businesses follow three main approaches to the sale of their goods and services: production, sales, and marketing.



Entrepreneur Beware

Standardization is no longer the most important feature for today's consumers. We expect custom products and services that meet our own unique needs, something that is not always possible for mass-produced items. Today, not everyone wants a black car.

The Production Approach

This is the oldest approach. It is based on the belief that consumers will favour products that are widely available and low in cost. Until fairly recently, production-oriented organizations concentrated only on achieving high efficiency and wide distribution coverage. Ford Motor Company, for example, put its resources into perfecting the mass production of standardized automobiles. This reduced the production cost so that ordinary consumers could afford to purchase them. The down side of standardization is the corresponding limit of choice. In terms of the early Ford automobiles, it was said that you could have any colour you wanted as long as it was black.

As marketers began to understand more about why consumers chose one product over another, many people started to believe that consumers would favour those products that offer the most quality, performance, and features. Product-oriented organizations now focus on making good products and improving them over time. To relate this philosophy, Ford began to tell us that “at Ford, quality is job one.” This concept also gives rise to the adage: “Build a better mousetrap and the world will beat a path to your door.”

The Sales Approach

This approach is based on the belief that consumers, if left alone, will ordinarily not buy enough of an individual business’s products. Thus, the business must undertake aggressive selling and promotion efforts. Selling is often supported by extensive advertising and promotional campaigns. Closing the sale becomes more important than the product, service, or customer. As a result, many consumers believe that marketing is advertising and hard selling. We now see the Ford Motor Company joining thousands of other organizations in spending billions of dollars on advertising competing for our attention and our disposable income.

The Marketing Approach

The basis for this approach is the belief that the best way to achieve business goals lies in achieving two things. First, identify customers’ needs and wants, and second, satisfy these needs and wants more effectively and efficiently than the competition.

In discussing marketing, management guru and best-selling author Peter Drucker says that

There will always, one can assume, be need for some selling. But the aim of marketing is to make selling superfluous. The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.



Entrepreneur Beware

Just because you have a better mousetrap it does not necessarily mean that consumers will buy it. What makes it better than the others? How will the world know about the mousetrap or even that it is better? How will the world know where to find the mousetrap? Does the world really need another mousetrap? These and similar questions challenge the universal validity of the product concept.



Building Block

The key to achieving your business goals is to figure out what your clients need and then meet these needs more effectively and efficiently than your competitors. Nontechnical ways of expressing this idea include “Find needs and fill them” and “Make what will sell; don’t try to sell what you can make.”

What Marketing Does for You

Marketing does two very important things for you. First, it helps to protect and maintain your current customer base. As noted in Chapter 7, there is a great deal of competition in today's marketplace. This means that your customers are also target customers for other organizations, both business and nonbusiness. For your business to thrive in the long term, you must protect your client base from the competition. This can best be done by ensuring that you meet your clients' needs on an ongoing basis. Defensive marketing activities—maintaining regular contact with your clients, understanding your clients' shifting needs, and showing your responsiveness—will help protect your client base from erosion.



Shop Talk

As a practising lawyer, I was amused, and even amazed, at the attitude that many lawyers had toward their clients. Many lawyers seemed to think that after they had done some legal work for specific clients, these individuals became their clients for all time. Despite the contrary position of the Law Society of Upper Canada and several judicial decisions, lawyers thought of their clients as assets, something like property, that were theirs and theirs alone.

Whenever a client chose to go to a different lawyer for whatever reason, the lawyer who had previously provided legal services to the client invariably accused the new lawyer of stealing the client. Despite any legal issues surrounding the alleged client theft, clients change lawyers, or any other suppliers of goods and services, because they are no longer satisfied with how their needs are being met.

If you do not maintain regular contact with your customers, and understand and respond appropriately to their shifting needs, you risk losing them to a competitor.

The second thing that marketing does for you is to generate new business. The lawyers I knew were quite good at this aspect of marketing. Although they could not advertise, most law firms had at least one member who was very skilled at generating new business. Whether schmoozing on the golf course, or networking at service clubs or with individuals who make referrals, lawyers continue to generate most of their new business by effectively maintaining personal contact with helpful people.

Everybody Seems to Be Doing It

In our modern world, all organizations, whether in the public, not-for profit, or private sectors, engage in some form of marketing activities. Governments undertake research to clarify what their clients—that is, taxpayers—need and want from them and how satisfied the public is with its performance. All levels of government spend millions of taxpayers’ dollars to promote a variety of programs and services. Similarly, not-for-profit organizations and charities, struggling to deal with changing demands for their services and declining revenue streams, are undertaking new and innovative marketing activities. Frequently, fundraising activities such as selling products or services are more like business activities than traditional charitable donation activities.



Building Block

Generating more business involves more than schmoozing. Chapters 12 through 18 offer various approaches to developing more business.

Marketing activities by public and not-for-profit organizations represent a bad news/good news scenario. The bad news is that these marketing initiatives—whether research, promotion, or fundraising—are all competing for a share of the attention, time, and money of our existing and potential customers. The good news is that these marketing activities represent opportunities for us to learn new approaches to marketing our own goods and services. If we like a marketing activity that a government or charity is using, it might also work in our businesses. Conversely, if we see something that does not work, we will know not to try to incorporate a similar approach into our businesses.

How the Big Guys Market

Not surprisingly, it is in private sector organizations—that is, businesses—that we see the most marketing activity. Big business organizations, individually and collectively, have a wealth of marketing experience. It is this wealth of experience that has produced conventional marketing wisdom and knowledge.

I first became aware of conventional marketing wisdom and knowledge after I stopped practising law and, like many others before and after me, decided to start my own consulting business. Although I had gained some practical experience in hands-on marketing, I had never taken any marketing courses. To learn more about marketing and to better prepare myself for marketing my consulting business, I enrolled in a basic marketing course at a local university.

During the first night of the course, I learned that, based on the experience of businesses such as General Electric, General Motors, Proctor & Gamble, and Coca-Cola, marketing was defined as “the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that will satisfy individual and organizational objectives.”

My textbook offered a similar definition: “Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.”

Impressive as these definitions were in the course handouts and the 800-plus page textbook, they appeared to be simply too academic and theoretical for what I planned to do in my small business.

Early in the first class, the instructor also introduced the famous “4 P’s of marketing”: product, place, price, and promotion. Many people think of these elements as the very basis of all marketing. If you have never heard of them, here are the details:

Product

The components of product include the following:

- Quality
- Brand name
- Packaging
- Ingredients

Place

For retailers, this means location; and for manufacturers, it means distribution channel.

Price

The components of price include the following:

- Premium or low pricing
- Market considerations such as competitors’ pricing
- Customers’ willingness to pay
- Production and marketing costs

Promotion

Some of the elements of promotion might include the following:

- Advertising
- Sales promotion
- Public relations
- Personal selling

The instructor used breakfast cereal and motor vehicles as examples to illustrate how the 4 P's worked in practice. Each example effectively showed the importance of product, place, price, and promotion in the complete marketing process. However, as I thought about what I had experienced and saw other people experience while running their own small businesses, the same 4 P's simply did not apply.

As a lawyer, I had provided a *service*. The owner of the building where my office was located was an accountant who also provided a service. What relevance do product-related criteria such as quality, brand name, packaging, and ingredients have to services such as law, accounting, or any consulting-type service?

I had no trouble with the *place* factor; clients did after all come to my office. But like all service providers, I also met with clients and did work for them away from my place of business. My accountant/landlord had several clients who lived out of the country and had never set foot in his office in Canada. How relevant was the location of my office or my neighbour's office for marketing purposes?

As for *price*, my fees, like the accountant's, were usually based on the time spent on a matter. These fees were comparable to what the competition was charging for similar work.

As a lawyer, *promotion* was a nonissue: We could not advertise. And at the time, accountants seldom advertised.

After I concluded that the 4 P's probably do not apply when marketing professional services, I tried to apply the principles to former small business clients whom I had known to be successful. The results were similar. Although some principles applied slightly to some clients, none applied to all clients.

At the next class, I tried to discuss my difficulties with the instructor. He dismissed my concerns with a curt "Well they *should* apply to any business" and moved on to discuss the next topic: primary research of new products for the mass market.

Why Marketing Is Different for Small Businesses

Very early in my formal study of marketing theory, I decided that the marketing practices of big businesses are not always applicable to small businesses. There are several reasons for this. Among the most significant is the fact that small businesses simply lack the resources to have dedicated marketing departments. Small business owners are excellent at multitasking: In most cases, they personally do some or all of what must be done, including marketing. As a result, because of time pressures, their marketing efforts are more simplified than big business marketing. In most cases, the marketing activities are reflections of the individual owner's personality and strengths.

Marketing as defined by big business experience comprises a very broad range of marketing tasks. These tasks include analyzing marketing opportunities, including

- The marketing environment that affects the business

- Consumer markets and buyer behaviour
- Organizational markets and buyer behaviour
- Competitors
- Researching and selecting target markets
- Designing marketing strategies and planning marketing programs
- Organizing, implementing, and controlling marketing effort

Big business organizations have resources to undertake and complete these tasks with reasonable effectiveness. Small businesses do not.

Having dismissed big businesses–style marketing as a useful model, I no longer had to struggle to force-fit conventional marketing theory to small businesses. The challenge then became trying to understand what marketing meant to small businesses.



Hot Tip

Small businesses succeed primarily because of the unique combination of skills, talents, and resources of their owners. Small businesses represent their owners' individual personalities. Accordingly, the marketing activities for any small business also reflect the personality of its owner. Big businesses, on the other hand, achieve success as a result of many factors, including the synergy of people working together and efficient capital management. In a large business organization, marketing activities represent the corporate agenda and not the personalities of the individuals most directly involved in production or client service.

To solve the problem of identifying what marketing means for a small business, such as my new consulting business, I reflected on the marketing successes of my former small business clients, and I realized that different individuals used different approaches to attract and retain clients. One accountant, who worked out of his farm house, made house or office calls and never expected clients to come to his home. The owner of a hardware store kept a huge inventory of appliance parts in case customers needed something, while a shoe retailer remembered the size and style of the shoes that customers bought. A bakery gave out samples of cookies, and the owner of a neighbourhood variety store allowed local community groups to use a display window to promote upcoming events. An auto mechanic consistently finished service work sooner and at a lower cost than originally estimated. These are but a few examples of things that small businesses do to attract and retain clients. If you are familiar with small businesses, you probably know of similar activities. If you have run your own business for some time, you probably do similar kinds of things.

Effective as these approaches are, none would fit neatly into the traditional 4 P's approach of marketing. Further, it would be difficult even to classify these activities as specific marketing tasks or subtasks under the big business marketing model.

There are, however, two consistent elements running through these examples. First, they are unique to each business and its owner. Second, and in the simplest of terms, these activities are all things that in some way or other relate to retaining existing clients and attracting new ones.

Whatever you do to retain or attract new customers is marketing. In other words, *marketing is doing whatever it takes to generate more business for your small business.*

Simple as this definition may appear, it is quite compatible and consistent with the purposes of a small business, with the two elements stated above, and even with the tasks of marketing outlined in the big-business context. Being general, the proposed definition can include all aspects of running a business. This makes it possible for everyone who is involved in running a small business to always be constantly aware of marketing considerations. It also makes it more difficult to isolate marketing concerns into specialized marketing departments and divisions staffed by marketing personnel, as happens with big business organizations.

Finally, the more general definition allows owners of small businesses to personalize their marketing activities, a technique that has worked effectively since our ancestors traded their excess production.

The most effective marketing activities are those that are planned and implemented according to a well-prepared plan. The next chapter outlines how to develop and implement a marketing plan.

The Least You Need to Know

- Marketing helps you maintain your current customer base and attract new customers.
- Marketing as practised by big business organizations is not always appropriate for small businesses.
- Marketing is whatever you do to develop more business for your business.



Plan to Market

In This Chapter

- ▶ The art of marketing planning for your business
- ▶ The principles of a plan: the need, the customer, and the strategy
- ▶ What's the best way to put a marketing plan together?
- ▶ The do's and don'ts of planning

When it comes to small business marketing, it seems that everybody is an expert. Everyone from long-time marketing professionals, to anyone who knows about small businesses, to new small business owners has marketing advice to offer. Driven by the belief that their approach is the best one, they are honestly trying to be helpful. The unfortunate reality is that no single marketing approach works for everyone. The best marketing approach for you is the one that works best for you and your business.

Regardless of the approach that you ultimately develop, it must meet two basic criteria: It must be planned, and it must be capable of being maintained continuously over the long run. Planning your marketing is an extension of planning your business. It details specifically what resources you have and how these resources can be used to meet customers' needs and wants. Planning also outlines how you can connect your goods and services with customers' requirements.

Marketing is not a sporadic activity, something that you do only when you need new business. It is something that you continue to do from startup to windup. As a result, your marketing plan must be kept current and up to date.



Building Block

Small businesses are unique. Each one reflects the individual personality of its owner. This means that as the owner of a small business, you customize your systems and procedures to reflect your own skills and strengths. Among the things that you customize is your approach to marketing.



Entrepreneur Beware

Watch out for self-appointed marketing authorities and experts. These people advocate specific marketing practices and routines as the best approaches for small business. In reality, the practices usually reflect the experts' own practices and, as such, they might or might not work for you. Be especially wary of those authorities and experts whose only business is selling their marketing know-how. Do not try to adopt their practices without customizing them to meet your own personality and style.

Marketing in Your Business

Critical as it is, marketing is not something that many small business owners do on a continuous or ongoing basis. After the initial burst of promotional activity that usually accompanies the launch of a new business, marketing becomes more reactive than proactive. As owners become more involved with serving their customers and otherwise engaged in running their business, they tend to forget the role that marketing plays in protecting their existing client base and in generating new business. For many people, marketing becomes something to be done when they have time or a reaction to a slowdown in their business activities.

Realistically, we regularly do the things we enjoy doing and procrastinate when it comes to doing the things that we do not enjoy. For example, I love writing and enjoy chatting in person with interesting people. On the other hand, I do not like long telephone conversations and really don't like small talk. Obviously, given the opportunity, I would willingly choose writing or an in-person conversation over a telephone chat of any kind.

When applied to marketing, this procrastination really means that unless you enjoy a specific marketing activity, you are likely to find something more enjoyable to do.

People who have been most successful in their businesses know that the most effective marketing activities are those they have developed for themselves rather than those that try to duplicate what other businesses are doing.

Planning Your Marketing

For new businesses, your marketing plan will profile your ideal customers—those customers to whom you would like to sell your goods or services. For

existing businesses, your plan identifies your current customers. The plan will also identify what you do, or will do, for your customers, and outlines how you will go about converting potential customers into actual buyers of your product or service.

Once your marketing plan is finished, you can either add it to your business plan in its entirety, or you can simply add a summary of it. In combination with your business plan, your marketing plan will provide you with a comprehensible and useful road map for running your business over the coming year.



Hot Tip

The best marketing activities are thoroughly planned, organized, and implemented. They are designed to achieve the goals set out on your business plan.

The Steps to Successful Marketing

Few marketing activities are likely to generate significant new business in the short term. Effective marketing involves the use of many strategies over a period of time. Because of this, marketing planning is essential. Marketing planning involves the three steps of identifying a need, identifying the customer, and outlining your strategy.

Identify a Need

This task involves asking yourself the following questions.

1. What is the need that I can meet?
2. For whom will this need be met?
3. Why must this need be met?
4. What benefits will arise as a result of this need being met?
5. How can I meet this need?
6. When must this need be met?
7. What will happen in my business as a result of my meeting this need?

This first step is an extension of the information discussed in Chapter 3, which considered what you will sell in your business. Here you will fill in the details.



Shop Talk

For many years, Lorne Ralph has offered video production and related services on a part-time basis. He recently decided to make the business his full-time activity and is now planning his marketing. Here is how he answered some of the questions to identify the need that he could meet.

What is the need that I can meet?

- Professionally produced videotapes

For whom will this need be met?

- Families and individuals
- Businesses
- Not-for-profit organizations

Why must this need be met?

- Families and individuals: to remember weddings, bar mitzvahs, and other rites-of-passage events
- Businesses: to help promote their goods and services
- Not-for-profit organizations: as educational tools

How can I meet this need?

- Produce and supply appropriate videotapes

Identify the Customer

This second step involves assessing the attractiveness of a given market and estimating its overall size, growth, and profitability.

The next chapter will help you identify who your customers are and what you can do for them. When you determined this information, include a summary in your marketing plan.

Outline Your Strategy

How will you introduce and promote your services to your market? This third step defines the broad principles by which you expect to achieve your marketing objectives. It includes basic decisions about how much time and money will be dedicated to the overall marketing effort and how this time and money will be used.



Shop Talk

To continue from the story on the previous page, since Lorne will be doing all aspects of producing the videos on his own, he decides that individuals and families are the most attractive market for him to pursue. He lacks the resources to undertake either elaborate promotional videos for businesses or educational videos for not-for-profit organizations. He lives in a midsized city, which he believes will generate enough clients to sustain his business on an ongoing basis.

Putting It All Together: Your Marketing Plan

Your plan will serve as a checklist to follow in marketing your services. It should be fairly general and flexible so that you can respond to new opportunities. Plans that are too rigid tend to be more of a handicap than a useful tool: They interfere with effective marketing and become obstacles to your success.

The table on the next page outlines the contents of a marketing plan. The first three items—assessment of current marketing situation, opportunity analysis, and objectives—are based on the information that you gathered in Chapter 7 and expanded in the first and second planning steps above. The fourth item—marketing strategy—is based on the strategy you developed in the third step above. The next item—action programs—details how you propose to implement this strategy, while the last item outlines how you are going to control the process that you have created.



Hot Tip

Your marketing plan is a document that you prepare for your own use. It is not intended to be used outside your business. This means that you should use as much or as little detail as is appropriate for you. Important as the plan is, do not allow yourself to spend too much time preparing it. The purpose of the plan is to help you in running your business; but it should not be your main business activity.

Contents of a Marketing Plan

Item	Purpose
Assessment of current marketing situation	Presents background data on the market, the product or service to be provided, and the competition expected.
Opportunity analysis	Summarizes the main opportunities/threats, strengths/weaknesses, and issues facing the marketing effort.
Objectives	Defines the sales-volume goals of the plan.
Marketing strategy	Presents the broad marketing approach that will be used to pursue the plan's objectives.
Action programs	Answers the questions, What will be done? When will it be done? How much will it cost?
Controls	Specifies how the plan will be monitored.

Below is an example of a marketing plan, based on the Shop Talk video production business of Lorne Ralph.

Sample Marketing Plan

Assessment of Current Marketing Situation

- The business is located in an area with a population of approximately 50 000 people, a reasonable number of whom are baby boomers with children at the appropriate age for marrying and starting families.
- Media reports suggest that baby boomers like the idea of professionally produced videos for weddings and other rites of passage; these people are probably also willing to pay for quality video work.
- There are very few other qualified and experienced video producers; most videos are produced by untrained videographers who run part-time businesses.
- The main competition will be from part-time videographers who offer lower prices.

Opportunity Analysis

- Opportunity: I can be among the first full-time videographers in the area; this can lead to a high profile and an image of being innovative.
- Threat: The market may not readily accept innovative approaches, and may instead prefer traditional portraits.
- Strength: I was born and educated in the area and my family has lived here for many generations; this means that a large number of people will know me and my family.
- Weakness: My family is very conservative; local people may have trouble seeing me as being innovative.

Objectives

- To obtain a minimum of fifty assignments for weddings, etc.
- To generate at least \$50 000 from the production and sale of videotapes.

Marketing Strategy

- To address the threats and weaknesses, I will focus my marketing activities on promoting the benefits of a video record of a wedding over the traditional portrait photography.
- To keep marketing costs low, I will network with wedding planners, florists, and clergy to increase my profile.

Action Programs

- Mailing to all wedding planners, florists, and clergy will be done quarterly. Estimated cost: \$500/ mailing.
- Prepare a sample video with selections of elegant and humorous components of weddings. Estimated cost (including samples to give away): \$1000.
- Participation as exhibitor in the Spring Home Show. Estimated cost: \$2000.

Controls

- Track referrals from wedding planners, florists, and clergy.
- Collect feedback on sample video.
- Collect and follow up on leads obtained at the Home Show.

Keep It Current

For your marketing plan to continue to be useful, it is important to update it regularly. Although you can update it annually, it is better to review and revise it every six months or so. This will allow you to amend the plan to reflect any changes or new developments in the current marketing situation. The departure of an existing competitor will result in new opportunities for you, while the entry of a new competitor into your market will certainly pose new threats that were not considered in your original plan.

In upgrading your plan, you can develop new action programs to replace those that you have successfully completed. You can also plan to do more of what you do well and work to improve the things that you do not do very well.



Hot Tip

Your marketing planning is actually an ongoing process that continues to keep your activities focused on achieving the results that you want.

The Dos and Don'ts of Marketing Planning

Do

- ▶ Personalize your plan, both in content and style. The content should reflect you and your business; the style should be easy to prepare and follow.
- ▶ Use your plan as a checklist for your marketing activities. It should serve as a reminder of what you hope to achieve.
- ▶ Make your plan flexible. This will allow you to respond appropriately to new opportunities and threats as they arise.
- ▶ Seek the input of your network contacts. These people often see things that you don't and can often make useful comments and suggestions.
- ▶ Keep an open mind about your marketing activities. Just because you have decided to do some specific thing, it does not necessarily mean that it is the right thing to do. Conversely, just because you have decided not to do something, it does not mean that it is not useful.

Don't

- ▶ Overanalyze. Remember that the plan is a tool intended to help you with your marketing. Analyzing marketing considerations should not be one of your primary business activities.
- ▶ Overwrite your plan. You are not preparing material for publication. You are preparing guidelines for your own use.
- ▶ Copy others' plans. For your plan to be useful, it must reflect you and your business, not represent a model of what an ideal plan should look like.
- ▶ Be too bound by your plan. It should help guide you to where you would like to be. If it's not producing the results you want, make some changes.
- ▶ Overlook the importance of your plan. Even if marketing comes easy to you, your plan will help keep you focused and on track.

The Least You Need to Know

- ▶ Your marketing should reflect you and your business, not someone else's marketing activities.
- ▶ The best marketing plan is an extension of your business plan.
- ▶ Your marketing plan will serve as a blueprint for your marketing activities.
- ▶ Your market is constantly changing; so should your marketing plan.



What Do Your Customers Need and Want from You?

In This Chapter

- ▶ What you need to know about your customers
- ▶ How to identify customer needs and wants
- ▶ Do's and don'ts of customer service

Customers are willing to do business with people they believe can help them. As a result, two major challenges that you face in marketing are identifying people whom you can help and convincing them to allow you to help.

For new businesses that do not yet have any customers, these challenges can appear overwhelming. However, by identifying and profiling “ideal customers,” new businesses can follow the same process used by more established businesses. Essentially, this involves identifying your best customers (or potential customers) and what you did for them or can do for them. From this process, you can identify what your customers need and want and how you are able to use your resources to help them.

In most cases, your customers expect service that is not directly related to their needs. They expect to be treated with respect and courtesy. They also expect to not be treated rudely or with indifference.

You and Your Customers

Your customers have unmet needs or wants that can represent a variety of pains, problems, or potential gains. They are willing to do business with you because they believe that you can help them stop the pain, solve the problem, or realize a gain.



Hot Tip

If your business is new and you do not yet have an existing base of clients, pretend that you do. Instead of assembling a list of customers whom you *have served*, make a list of customers whom you *would like to serve*. Use the information in your business plan to make assumptions about specific factors, such as total revenue generated by this customer, and to help you to identify their location and size.

This means that whether you own a new business that does not yet have any customers or your business has a base of existing customers, your major marketing challenges are the same. First, you must identify customers whom you can help. And second, you must encourage them to believe that you are the right person to help them. Obviously, the first step in meeting this challenge is to identify your customers.

Who Are Your Customers?

Many business owners become so involved with attracting new customers that they forget about the customers they have served in the past. The following exercise, which helps you to identify who your customers are, will return your focus to existing customers by listing existing customers, identifying ideal customers, and profiling ideal customers.

List Existing Customers

This list will include all individuals and organizations that have purchased your goods or services over the last twelve months. If you are fortunate enough to have so many customers that the list will be too long and become unmanageable, list only those customers who have generated a suitable minimum level of revenue. If you can't identify a suitable minimum level of revenue, try using half of the average revenue per customer (divide the total revenue by the number of customers, and multiply the result by 0.5).

In listing your customers, include the following details about each one. If necessary, modify the suggested criteria to more accurately reflect your business.

1. Products or services provided
2. Total revenue generated
3. Timeliness of bill payments: prompt, slow, or very slow
4. Date of last service
5. Geographic area in which the customer is located: neighbourhood, city, region, etc.
6. Type of customer: consumer (includes family) or organization (private sector, public sector, or not-for-profit)

Identify Ideal Customers

Ideal customers are those who generate the most revenue for you and who pay their bills on a timely basis. These are the types of customers upon which you would like to build your business. Identify the 10 per cent of your customers who generate the most revenue and who pay their bills on time.

If you have not as yet developed a list of revenue-producing customers, skip this step and go to the next step.

Profile Ideal Customers

In profiling ideal customers who are either individuals or families, use the following criteria:

1. Demographics: What is their approximate age range, income level, education level, and marital status?
2. Residence: Where do they live: urban, suburban, rural? Do they rent or own their residence?
3. How do they earn a living?

In profiling ideal organization customers, use the following criteria:

1. Size as defined by any or all of location, revenue, and employees
2. Structure: Is it highly or loosely structured?
3. Who are the decision makers and how are decisions made?
4. What or who influences the decision makers?

Analyzing your customer base will enable you to identify needs and wants of existing and potential customers.



Hot Tip

You can also use the existing-customer list to analyze different aspects of your business. Item 1, for example, will show you what goods or services you sell the most. Item 3 will show how promptly your customers pay their bills. Too many slow-paying customers can be a problem. Item 5 will show where your business comes from. If a great deal of customers are in one geographic area, are there other potential customers there that you could serve? Physically how close are you to your customers? Be sure to extract as much meaning as you can from the information that you assemble.



Shop Talk

Here is what Nancy Lazar learned about the clients of her computer consulting business.

- Existing customers: She has served almost 200 customers. From this number, she selects only those customers who have paid her more than \$500 for her services.
- Ideal customers: These are the customers who generate the most revenue and also pay their bills on a timely basis.
- Profile of ideal customers:
 1. Individuals or families who meet some or all of the following criteria:
 - parents aged 30 to 45, university educated, with children in school
 - live in suburbs, usually in owner-occupied single-family homes
 - earn their living in professional-type jobs
 2. Organizations that meet the following criteria:
 - owner-operated small service businesses with fewer than five employees
 - many located in homes, some located in small rented offices.



Hot Tip

When identifying customer needs, it is useful to develop a customer perspective. This involves putting yourself in your customers' place and thinking like they do. This helps you to develop a better understanding of issues affecting them. If you don't really understand what they need, ask for clarification.

What Do Your Customers Need?

The easiest approach to identifying customers' needs is to identify what you have done for them. To do this, simply review the services that you provided for your ideal customers. Assuming that your customers were satisfied with what you did, it is reasonable to believe that you were successful in identifying and meeting their needs.

What Do Your Customers Expect?

As well as expecting you to help them meet specific and unique needs, your customers also have expectations about your service. Following are the most common expectations that customers have regarding the quality of service.



Shop Talk

Continuing Nancy Lazar's focus on her customers, when Nancy reviewed what she had done for her customers she found that, regardless of the nature of the customer, her services consisted of customizing software programs to make them more applicable and useful in her customers' situations. She was surprised that in each case, she did little more than follow the instructions in the manuals and other material that accompanied the software. Thus, she decided that what her customers needed was her help in understanding and applying the technical instructions of different software programs.

Reliability

Reliability involves providing what you promised to your customer, dependably and accurately. This could be simply calling the customer at a specific hour on a specific day. Reliability is nothing more than saying what you mean, meaning what you say, and doing what you say you are going to do. If you have no intention of doing what you say you are going to do, why bother saying it? If something develops that prevents you from doing what you said you would do, discuss the new development and its implications with your customer. Customers can be remarkably understanding and reasonable when kept informed.

In Nancy's case (see Shop Talk boxes), this reliability means arriving to look at the computer when she said she would. It also means that if something comes up that prevents her from arriving when she said she would, she calls the customer, apologizes for the problem, and makes arrangements to do the work later.



Hot Tip

In setting priorities and establishing deadlines, the principles of effective time management are useful. Important and urgent matters always receive top priority. If, in the last week in April, you have not filed your personal income tax return, completing it is both important and urgent.

Next in priority come matters that are necessary to do in order to complete other urgent tasks. These generally require some form of crisis management as a preliminary step to final resolution. If you have not completed the return because you have not finalized your statement of income and expenses, it is urgent that you finalize last year's financial statements.



Hot Tip

Early in your relationship with a new customer, reach some agreement about what timely service means to you and to the customer. If your customer expects timely to mean instant, he or she should be prepared to compensate you over and above the normal remuneration. Realistically, few customers actually require instant service. Most are satisfied with service that is reasonably prompt.



Building Block

In framing questions, use words and terms that you know your customers will understand. Your approach should be conversational rather than adversarial. The purpose of asking the questions is to obtain information from the customers, not to prove that you are right and the customer is wrong. There is little to be gained by winning the argument but losing the customer.

Responsiveness

Customers expect you to be willing to help them and to provide timely service. This responsiveness is expected in all dealings with the customer, including each contact, from telephone calls to written correspondence and reports. Time frames should be established for those services that cannot be provided promptly. Once set, you should make every effort possible to ensure that the deadlines are kept.

Note that timely service does not always mean instant service. The question of timeliness depends upon such factors as industry standards, your customer's sense of urgency, and your own availability. As a rule, timely service means as soon as possible. Instant, on the other hand, usually means "right now," as in "drop what you are doing and look after me right now!"

Lastly come those matters that are important but not yet urgent. Left unattended, these matters have a tendency to become urgent as well as important. In April, it is important that your monthly bookkeeping is up to date. Left unattended until the next April, it will become important and urgent.

Assurance

Assurance is a combination of your knowledge and courtesy as well as your ability to convey trustworthiness and confidence. It has often been said that there are two ways to appear knowledgeable. One is to read and understand all the literature that is available. The other is to be quiet and let the other person believe that you know and understand relevant information. At the early stages of dealing with customers, the latter is the preferred approach. As well as appearing knowledgeable and interested, you can gain valuable insights from hearing customers talk about their problems in a seemingly undirected manner. Often your own objectivity enables you to develop a solution to the problem as you listen.

Empathy

Empathy is reflected in the degree of caring and individual attention you project to customers. Although this is one of the most important customer expectations, it is often the most neglected.

The simplest method of demonstrating that you care about your customers is to listen to them. Instead of trying to impress customers with self-serving monologues, try really hearing what they say. Allow them to tell you their story; let them tell you what it is they want. As you listen, don't engage in mental arguments with them or look for further opportunities to demonstrate your own skills and knowledge. Listen and try to understand what they are telling you. Ask questions to help you better understand what they need from you.

Many providers of technical services, such as computer consultants, are so skilled at their work that they sometimes forget that most people do not know things that the consultant takes for granted. For people like Nancy, it is important to understand where the customer is coming from and to work with the customer at that level. If your customers knew as much about your area of expertise as you do, they wouldn't need you.



Entrepreneur Beware

Some people are so empathetic that they become sounding boards on many nonbusiness issues for their customers. This could result in spending an inordinate amount of time sympathetically listening to customers' long tales of woe, many of which are not related to the business relationship. Make sure that your empathy does not become an opportunity for your customers to unload their life problems on you.

What Customers Are Not Looking For

- Lectures on how their problems could have been prevented
- Monologues that feed your ego and show how smart you think you are
- Unrealistic promises
- Excuses for unkept promises
- Indifferent and slow responses to their requests
- Interrogations and arguments
- Second-class treatment

The Least You Need to Know

- Your customers are willing to do business with you because they believe that you can help solve a problem or realize a gain.
- To help your customers, you must know who they are and what they need and want from you.
- Customers also expect quality service.



How to Distinguish Your Business from the Competition

In This Chapter

- Find out how to distinguish yourself
- How to identify the unique features that benefit your customers
- Listing your business and personal achievements
- Service with a smile
- Using your network of contacts

Each of us brings a different combination of personality, skills, and life experience to serving our customers. Not surprisingly, the first step in understanding how our uniqueness can help our customers is to identify our own unique features. After identifying the specific skills that we possess in dealing with people, data, and things, we can then identify some things that we have achieved using these specific skills. These achievements in turn will help to identify other potential business applications of our skills.

Because small businesses reflect their respective owners' personalities, the service offered by small businesses tend to be very personal. This personal service also helps distinguish one small business from another. In practice, this personal service helps distinguish the tangible products of one business from another.



Building Block

Every individual is unique. This uniqueness arises because each of us has a different combination of personality, skills, and life experience. Although others may have similar personalities, corresponding skills, or comparable life experience as you, no one person has exactly the same combination.

Many unique features of your business, whether personal service, basic business assets, or even your network of contacts can become identifiable benefits to your customers. By connecting your unique features to benefits to your customers, you can further distinguish yourself from the competition.

Distinguishing Yourself

In order for us to achieve anything, we must have, and effectively use, some skill or combination of skills. If, for example, we would like to achieve the task of reading the daily newspaper, we must know how to read and effectively use this skill in reading the newspaper. Similarly, if we choose to help a child learn to walk or talk, we must have some skill at helping others learn, even if the skill is simply encouraging the child to continue.

An easy way to analyze skills is to start by classifying them according to whether the skills are used in dealing with people, information, or things. The following table illustrates typical examples of each of these classifications of skills.

Outline of Skills

Skills with People	Skills with Information	Skills with Things
Taking instruction	Observing	Handling objects
Serving	Comparing	Using tools
Communicating	Storing and retrieving	Operating equipment
Persuading	Computing	Operating vehicles
Performing, amusing	Researching	Precision working
Managing, supervising	Analyzing	Setting up
Negotiating	Organizing	Repairing
Leading	Evaluating	
Advising, consulting	Visualizing	
Counselling	Improving, adapting	
Training	Creating, synthesizing	
	Designing	
	Planning, developing	

Each one of us brings a different mix of achievements to whatever work we do. The first step in distinguishing yourself is to identify your achievements. Use the chart below to help you identify your achievements.

Business Applications of Your Achievements

Skills	Achievements	Applications
Dealing with people		
Dealing with data		
Dealing with things		

Use these skills as a starting point to identify your achievements in each of the three categories. Start with the skills that you use most frequently. Most people are, or at least should be, quite good at what they do regularly.

For example, an entertainer I met in Surrey, British Columbia, would start with the skill of “performing,” and an auto mechanic whom I met at the same event would start



Hot Tip

If you have limited business experience, consider nonbusiness situations in which you have used specific skills. You might provide gardening advice to your neighbours or train your friends on Internet research. The fact that you have not yet been paid for using a skill does not mean that you should ignore it.

with the skill “repairing.” The publisher from Halifax, Nova Scotia, might identify “creating, synthesizing” as skills that she had and exercised.

After you have identified the skills that you use most frequently, the next step is to identify situations in which you used these skills to achieve noteworthy results. For the entertainer, it might be performing for guests at a major conference; for the auto mechanic, it could be repairing a vintage automobile. The publisher might have produced a new work about freshwater fishing in the Maritimes. Remember to include nonbusiness achievements. Once you have identified a number of achievements, make a list of them. It is this list of achievements that will distinguish you.

Leave the column entitled Applications blank for now. You can return to it later.

What’s Special About Your Service?

Generally speaking, people in similar service-based businesses provide the same or comparable services. As a lawyer, I was well aware of this reality. I knew that the pure legal services that I provided to the purchaser of real estate were, or should have been, exactly the same as those that another lawyer in the community would have provided. After all, we were following the same policies and procedures regulating the transfer of ownership of land. Further, we were using the same sample documents, which lawyers call precedents, to prepare the necessary paperwork. In most cases, we were using the same or similar checklists, usually based on models supplied by the Law Society, to ensure that every step was completed on a timely basis. For example, when a lawyer down the street helps an executor look after an estate, he or she is using the same policies, procedures, precedents, and checklists as another lawyer providing the same services to another executor at the other end of the province.

What distinguished my services from those of other lawyers in the community was my own personality, which influenced all aspects of how I practised law, including how I served my clients. Because I enjoyed interacting with my clients, I chose a very personal approach. This meant meeting personally with clients. Other lawyers who preferred tending to legal issues might have preferred to have their secretaries or clerks deal with clients. I also made it a point to explain different aspects of the services that I was providing; other lawyers chose instead only to answer specific questions as they arose.

Regardless of whether I provided legal services to the purchaser of real estate or if someone else did, after the transaction had closed, the result would have been the same:

The purchaser acquired ownership. This part of the service was standard. The primary difference was in how we treated our clients; that was determined by our individual personalities and preferences.

Obviously, similar comments can be made about any service-based business. All hairstylists, for example, receive the same training in the basic elements of shampooing, cutting, and styling hair. In serving clients, like lawyers, they all follow similar procedures. What distinguishes one stylist from another is the individual personality that each one brings to his or her work. Some, who are very creative, produce imaginative and innovative styles, while the work of others who are more conservative is more traditional. Individual personalities are also evident in how clients are treated. Some stylists pamper their clients with VIP treatment, while others work more like assembly-line technicians routinely dealing with one client after another. Regardless of which stylist a client chooses, the end result is the same: The client's hair is styled. Any differences are the result of the individual personality of the stylist who did the work.



Hot Tip

Do you run a service-based business? Think about the service that you provide. Chances are that someone else either offers or can offer a similar service. What distinguishes your services from comparable services is the personality that you bring to your work.

What's Special About Your Products? Your Service!

Think about what is special about various products. Consider plastic food savers, for example. These are the plastic containers with tight-fitting lids that we use for storing leftovers before we ultimately throw them out. Consumers looking for food savers can purchase them from retail outlets or from individuals who run their own business distributing plastic housewares. Regardless of where the items are purchased, the items will be essentially the same. The difference will be in the service provided by the independent distributor. Unlike a clerk in a store, this person can and probably will deliver the items, outline their features, demonstrate how to use them, and provide care and handling instructions.



Building Block

Regardless of what tangible items you sell, it is your service, shaped by your own personality, that distinguishes your products.



Shop Talk

As I prepare this material, I am in the process of upgrading my computer system. Like the consumer looking for food savers, I have a number of purchase options, including purchasing through the Internet, from a large retailer, or from a small retailer. For my purposes, whichever source I choose, the end result will be much the same: a computer that I can use for my work. I have chosen to deal with a small retailer, primarily because its service includes delivery, setup, and instruction.

In each case, from my perspective, the physical product would be essentially the same. The difference is the more personal service provided by the small business.

Similar considerations apply to the work of artists and craftspeople. What distinguishes the work of one artisan from another is the personality, which includes his or her creative talent. Without the application of this personality, their work would be little more than unworked raw material.

If you sell products as part of your business, whether produced by you or someone else, what makes them special is how you apply your personality to selling them. Once again, what is special about your service?



Entrepreneur Beware

In and of themselves, your personality and the special features of your product or service are usually not enough to motivate people to buy from you. The special features must yield some benefit for your customers.

How Your Unique Features Become Benefits to Your Customers

The chart on the next page will help you create an outline that briefly describes the unique features of your goods or services and how these features will benefit your customers. You can add any modifications that will occur during the coming year. During this step, you can also add reasons why a customer would want to purchase a specific product or service from you.

Unique Features and Benefits to Customers

Unique Features	Benefits to Customers	Why Would Customers Want to Purchase from You?
Product or Service		
Product or Service		
Product or Service		
Product or Service		



Shop Talk

Lawyers usually produce multiple copies of almost every document they produce or receive. (How many trees give their lives for the benefit of legal services?) To facilitate this production of paper, like most other lawyers, I had a high-speed photocopier in my office.

Many of the business offices in my neighbourhood had smaller and slower copiers. After I offered the occasional use of my copier to my accountant neighbour, word spread about its availability. My neighbours also began to reimburse me for the cost of their copies. It was only a matter of time before my neighbours started referring their friends and customers to me for legal work they needed done. Although these referrals were more likely the result of my allowing neighbouring businesses to use my copier than because of my professional reputation, I didn't really care. Referred business is usually good business, regardless of why it was referred.

If you have a photocopier, fax machine, or Internet connection that nearby customers and neighbours don't have, offer occasional use to these people. You never know what benefits might come your way.

Marketing Aspects of Your Business Assets

In many cases, assets that are used in running a business have unique features that can also yield significant benefits to customers.

The table on the next page will help you identify what assets you have and how these assets can benefit your customers. When identifying individual assets and how their unique features might benefit customers, try to maintain a customer perspective. Common things that you take for granted might have significant benefits to customers.

Your Network of Contacts Also Distinguishes You

As your business grows and develops, you will find that you will know more people who can help you. Regardless of whether their help consists of providing you with specific services or simply providing you with useful information, your contacts represent another readily available resource that can yield significant benefits for your customers.

Your contacts can help your customers the same way that they can help you. As you continue to distinguish yourself and your business, remember to include your contacts in your activities. For more information about how your contacts can help, see *Networking Is More Than Doing Lunch*, published by McGraw-Hill Ryerson Limited.

Business Assets and Potential Benefits to Customers

Asset	Unique Features	Potential Benefits to Customers
Physical accommodation (office, store, shop, etc.)		
Computer equipment (printer, software, scanner, etc.)		
Office equipment (copier, fax machine, etc.)		
Specialized resources (library, art works, etc.)		
Specialized tools and equipment (Internet connection, etc.)		



Shop Talk

Island View Hospitality Home is a unique bed and breakfast located in Claireville, Newfoundland. The physical location and setup of the B&B and the antiques throughout the establishment provide a rare look at Newfoundland as it is now and as it was.

Pat Devine owns and operates this business on a part-time basis. As a result of her experience in education, she has a full range of very well-developed people-oriented skills. A native Newfoundlander, she is also very knowledgeable about the island's history and geographical points of interest. As a sole proprietor, she has become skilled in dealing with things, such as tools and vehicles, as part of her normal business activities.

Included in Pat's network of contacts are other folks in the hospitality business, including a small out-of-the-way restaurant to which Pat referred us when it was featuring very fresh salmon steaks as its dinner special. By building her business on her own personality and the unique assets of her business, including her network of contacts and the area in which it is located, Pat has distinguished her business from other B&Bs in the area.

If you have not already done so, complete the Applications column of the chart on page 137. How can you apply your own unique skills in your business? You might also review the tables on pages 141 and 143 to help distinguish your business.

Once you have identified what distinguishes the features of you and your business, you can use these distinguishing features as part of your business promotion activities. Chapter 17 outlines different promotional approaches that you can follow.

The Least You Need to Know

- Your unique combination of skills and experience will help distinguish you from the competition.
- Personal services will also help to make you stand out from the competition.
- If your products are similar to those of others, your personal service will help differentiate you.
- The unique features of your business, your business assets, and even your network of contacts can also help distinguish you from similar businesses.



Quality Service: Your Best Competitive Advantage

In This Chapter

- ▶ Find out how quality can give you a competitive edge
- ▶ Quality service and customer service—the basic principles
- ▶ What is a value-added service?
- ▶ Why it is important to listen to what your customers really want

In a competitive marketplace, the best way to distinguish yourself and keep your customers coming back is to continue to offer quality service. And remember that quality service is what your customers say it is.

To consistently deliver quality service, listen to what your customers say, identify and meet their needs, exceed their expectations, and standardize routine procedures. It is important to provide appropriate knowledge. Make sure you deliver what you promise, and don't promise what you can't deliver. It is also important to include value-added services in what you do for your customers. Remember that customers seek the benefits that come to them from purchasing your service.

How Quality Gives You the Competitive Edge

Having shifted from the product-oriented marketplace of the Industrial Age to the service-oriented market of the Information Age, the importance of the service component attached to products becomes increasingly important. Products are sold on the basis of services promised and delivered. The duration of the power train warranty on a new automobile is as much a selling point as is the performance of the power train.



Hot Tip

If your standards of quality coincide with or exceed your clients' standards, you will be successful. If your standards fail to meet those of your clients, you risk losing their business.



Hot Tip

The surest way to keep customers coming back is to continue to meet their needs and wants better than the competition. In this marketplace, you can be certain that your competition will be striving to strengthen their own positions and will be looking at your customers as possible additions to their own customer bases. Consistently providing quality service to your customers will keep your customers coming back and will also help distinguish you from the competition. You will be able to retain your customers and also use your customer base as a resource for growing your business.

In a nutshell, as stated earlier, quality service is what your clients say it is. Many businesses have posted signs with the following rules of customer service:

Rule #1 The customer is always right.

Rule #2 If you think the customer is wrong, read Rule #1.

This reflects the reality of running any kind of business.

Clients' standards may be unrealistic for different reasons. They may not fully understand what they require from you. They may not fully understand what you can and cannot do for them. It is your responsibility to ensure that the client understands your services and the standards of quality that may be reasonably expected.

The Four Basic Principles of Quality Service

Here are the four basic principles of quality service:

1. Deliver quality service consistently.
2. Provide appropriate knowledge.
3. Deliver what you promise, and don't promise what you can't deliver.
4. Add value to standard services.

Deliver Quality Service Consistently

The following four steps will help you to deliver quality service:

1. Listen to your customers.
2. Continue to identify and meet your customers' needs and wants.
3. Exceed customers' expectations.
4. Standardize routine procedures.

Step One: Listen to Your Customers

Your customers know their businesses better than you do. They also know their problems better than you do. However, they may not know how to describe their problems or how you can help.

By listening carefully to what your customers say, you learn a great deal. Through careful questioning you can help them to describe their problems effectively so that you can help develop a solution. You can also learn what your customers need to know about you.

The following list contains tips for listening to your customers and learning from them.

- Obtain customer feedback. It doesn't matter how you do this; the important thing is that you find out from customers how you are doing, and then address any of their concerns. Chapter 16 contains suggestions about how you can do this.
- Talk to your employees. Employees who deal directly with your customers probably have some very important information for you. Ask them what your customers are saying, and listen to what they say.
- Listen to what customers say, even if they don't put it into words. If you have shelves of products that never move or an appointment book with a lot of openings, your customers may be telling you they are unhappy. Find out why.
- Remember that the majority rules. If a vast majority of your customers all seem to say the same thing about your product or service, you must address it—even if it's a big concern or something that you don't personally agree with.
- Change the little things. If you can make small changes based on customer feedback, your customers will feel validated.
- Think through the big things. Just because customers want a change doesn't always mean that it is feasible. Don't discard your good business sense in order to please customers.
- Keep up the good stuff. Feedback isn't always negative. When customers tell you you're doing things right, be sure you keep doing them.
- Let customers be your ears when you aren't around. Customers can and will tell you how business is being conducted in your absence; take it seriously and act accordingly.
- Go the extra mile. Whenever possible, take extra measures to handle customer feedback and complaints. Your customers will appreciate it, and it will give you an edge over competitors.

Step Two: Continue to Identify and Meet Your Customers' Needs and Wants

Remember that your customers come to you because they have situations that require your assistance. Do not assume that just because you have identified one need, it is the only one for which the customer needs assistance. The needs that you have identified and perceive as being important may not be the same needs that your customer perceives as being important.



Shop Talk

I learned very early as a lawyer that what I thought my clients needed was not necessarily what they thought they needed. After meeting with one client, I summarized the situation as I understood it and outlined the proposed resolution. I finished my comments with the remark, "Is that right?"

My client looked at me and said, "You got the story right but I don't want what you said I need."

All that I could say was, "Well, what do you want?"

My client smiled and said, "Didn't think you'd ever ask," and went on to explain what he wanted.

As a result of this exchange, I modified my approach in dealing with clients with unusual problems. After letting them tell their story, my first step was to ask them what they wanted. Then, the next step in my role as their lawyer was to determine if what they wanted was legally possible.

Step Three: Exceed Customers' Expectations

Your customer will have a set of expectations regarding your service. You should strive to exceed these expectations. This means providing the service better, faster, or less expensively than the customer expected.

Step Four: Standardize Routine Procedures

This step presents a significant challenge. On the one hand, the customer expects and deserves unique nonstandard service. On the other hand, standardizing non-customer



Shop Talk

For most of us, when we take our cars in to a garage, we expect the work to take a long time and to be very expensive.

When our previous car was well past its prime, we had the good fortune to deal with an excellent garage. We were always told how long the service would take and what it would cost. If it turned out that it would take longer or cost more than we were originally told, the mechanic would call and advise us. Not only was the car usually ready sooner than promised, but also the work frequently cost less than originally estimated.

Built into the mechanic's quote of time and money for the job was a buffer in case something unexpected should arise. If that happened, he could still meet our expectations. On the other hand, if he could finish the work sooner and at a lower cost than originally estimated, he could exceed our expectations.

service factors improves efficiency and profitability. The factors that can be standardized include formats for reports and correspondence, procedures for gathering and analyzing information, and practices for billing and collecting accounts. With these kinds of procedures, it is not necessary or profitable to continuously reinvent the wheel.

Lawyers and their support staff usually follow standard practices in opening, maintaining, billing, and closing client files. Similarly, individual lawyers have their own established practices in obtaining and recording information from clients. This standardization increases the operating efficiency of both the law office and the lawyer. It also allows lawyers to concentrate more fully on the variable elements in serving individual clients—responding to their unique needs, wants, and expectations.



Building Block

Like law practices, which are essentially businesses that provide legal services, all businesses have routines that are common to all customers. What practices can you standardize to allow you to concentrate more fully on meeting your customers needs?

Provide Appropriate Knowledge

The technological revolution and information explosion, which have opened the door to independent businesses in these areas, have also given rise to “instant experts.” With access to an astounding volume of information, these individuals profess expertise in a broad range of areas. They often fail to realize that customers have access to the same information. What the customers need is the knowledge or skills that render specific information applicable to their unique situations.



Entrepreneur Beware

As we become more familiar with technical information, we learn to communicate with our colleagues and peers in a form of oral shorthand or jargon. Consultants perform “SWOT analyses,” financial analysts “crunch some numbers,” psychologists administer a “WISC-III,” and so on. To those in the know, the meaning of these terms is perfectly clear. To the uninitiated, they are gobbledegook.

Chapter 14 dealt with distinguishing yourself and your business from the competition. One of the most effective ways to do this is to understand current information and how it might apply to your customers’ individual circumstances. Providing your knowledge, which is in effect knowing how to apply information, can be a powerful tool in maintaining customer satisfaction.

And if we do have that knowledge that our customers want, we also need to be able to communicate with them at their level.

Communicating with clients involves treading a fine line between using terminology that is too technical on the one hand, and talking down to the client by using language that is too simple on the other.

Make sure that you use terminology that you know your customer understands. If in doubt, assume your client does not understand specialized technology unless and until your customer tells you that he or she is familiar with that terminology.

Deliver What You Promise; Don’t Promise What You Can’t Deliver

Consumers seldom believe statements made by advertisers. Customers, like the consumers they are, are cynical when it comes to promises. They are unlikely to accept unbelievable statements. You can say whatever you choose—but the proof is in the delivery. The same strategy that applies to customer expectations (ensure that they are reasonable and then exceed them) applies to your commitments. Ensure that they are realistic and then deliver more (better or faster) than expected. After you have developed a proper track record for doing what you say you will do, your customers will consistently believe you. Without a track record, the onus is on you to prove what you say you can do.

Of course, the corollary to this rule is to not promise what you can't deliver. Customers as experienced consumers know full well that if something seems too good to be true, it usually is.

Add Value to Standard Services

The best method of distinguishing your regular services from those of your competitors is to add something of value. As a valued-added service, drug stores record the history of their customers' prescriptions and use this record to provide health advice and safeguards. The nature of the value that you add to your service depends upon your own resources and creativity.



Shop Talk

Nancy notices that few customers maintain a record or log of service that has been performed on their computer equipment. Also, when she calls on a customer, she frequently finds that the problem could have been resolved with her help over the telephone.

To help her and her customers, Nancy has decided to provide each customer with a service log and troubleshooting guide. She designs it herself and has copies printed for distribution to customers when she next has contact with them. The log portion of the booklet contains spaces where customers can record the specifications of their hardware and software and details of additions, deletions, or changes. The guide describes common problems and offers solutions that the customers can try themselves or with Nancy's help over the phone.

By allowing customers to solve some problems themselves, the booklet will supplement Nancy's main service.

For maximum effectiveness, value-added services should meet the following three criteria:

Brevity. The valued-added service should supplement your standard service, not overshadow it.

Accuracy. The value-added service must be accurate. Providing wrong or misleading advice or recommendations negates the service and also reduces the credibility of your standard services.

Relevance. Your value-added services must be relevant to your customer and his or her situation.

The Five Basic Truths About Customer Service

1. **Clients don't want the service itself; they want the benefits of the service.**

This is particularly true of most professional services. Except for the occasional person who thrives on the attention that comes from medical treatment or court actions, most clients don't want these services any more than they would voluntarily purchase the services of a dentist or an autobody shop.

What clients really want is the benefits that come from the service. These benefits may include help in resolving a problem, or assistance in acquiring information, or even knowledge or skills that they lack. For example, a benefit that might reasonably be expected as a result of purchasing dental services would be healthier, more attractive teeth. Similarly, the benefits arising from autobody shop services would include the repair and use of a damaged motor vehicle.

2. **You are often your customer's second choice.**

Clients will usually consider their internal resources before going outside to purchase services. This means that you are not your customer's first choice. They need you to perform some task that they are unwilling or unable to perform for themselves.

3. **Customers demand quality service.**

As noted earlier, the demand for quality service is widespread in our contemporary society. This demand is just as commonplace with business people as it is with nonbusiness consumers.

Business organizations are currently adopting formal quality programs in order to compete effectively internationally. The International Standard Organization's family of quality standards—the ISO 9000 and ISO 14000 series—has increased the awareness of the importance of quality in business operations. A key ISO principle requires suppliers—that is, you and your competitors—to provide evidence of their ability to deliver quality goods and services. Failure to provide this evidence will put you at a serious disadvantage in competing with those who can provide it.

And after all, businesspeople are also nonbusiness consumers. Recent advertising emphasizes quality as a vital component of consumer purchases. If quality is an important component of people's personal lives, should it not also be a component of their work lives? If the products they purchase as consumers are "quality checked" should they settle for anything less at work?

4. **Standardized technical services will produce comparable results, regardless of the provider of the service.**

This is true of every standardized service area. Different insurance brokers will provide policies with analogous features. Although independent, they act as sales agents for the same companies. And assuming they follow the same procedures for the same purposes, independent researchers will also produce similar results. They are, after all, working with the same information.



Shop Talk

Even independent insurance brokers can distinguish themselves from their competition. I know one broker who used to personally deliver policies to new clients and explain what the policy meant and what the policyholder had to do in the event of a problem. He even gave them his home phone number—which was actually a second line with an answering machine in his home—so they could call him at any time. Most of his competitors initially scoffed at what he was doing but later came to resent his growing business.

Fortunately, the further one moves away from standardized services, the easier it becomes to distinguish services from those of the competition. The services of individual consultants may offer quite different but equally workable solutions for the same problem. The best solution is clearly the one that works best for the customer.

5. **Providing technical information is not quality service.**

Generally speaking, most clients are looking for more than technical information. Whenever I consider purchasing new software for my computer, I am not looking for a lecture on the technical specifications of the latest version of the software.

There is no point in telling me about such seemingly exciting features as the improved speed of the latest version of Windows or why one computer with one set of specifications is better than another with another set. I couldn't care less about these features because I simply don't need to know that kind of information. What I do care about is whether the software will perform specific functions for me on my particular system.

Quality service in this situation consists of listening to what I am asking, and applying whatever technical information may be relevant to answering my questions in terms that I can understand. Like most consumers, I am usually ready to purchase when I understand what I am buying and what benefits I will receive.



Hot Tip

Do not simply recite technical information to clients: Draw on your knowledge to help them understand how the technical information can be applied in their unique situations. Ensure that your clients fully understand the benefits that can reasonably be expected as a result of your service.

The Least You Need to Know

- Quality service is what your customers say it is.
- Learn and follow through on the basic principles of quality service and customer service.
- Listen to what your customers are telling you they want.



Ensuring Your Customers Are Happy

In This Chapter

- ▶ How to find out if your customers are happy with your product or service
- ▶ Formal and informal surveys
- ▶ Two sample questionnaires will help you get the right kind of information
- ▶ Making your good service even better

Obviously it is important to keep your customers happy. Satisfying customers on an ongoing basis is a continuous challenge when you run your own business. But how do you know if they are happy?

You ask them. Informal ways of finding out include asking your customer directly, asking their employees or suppliers, or even asking their customers. More formal ways include personal interviews or the use of questionnaires.

The feedback that you receive from customers does more than let you know how you are doing—it can also identify opportunities for improvement. It doesn't matter which technique you use to monitor how satisfied your customers are. The important thing is to do it.

How Did You Do? Measuring Customer Satisfaction

The importance of keeping your customers cannot be overemphasized. The difficulty lies in knowing whether or not your customers are really satisfied. Although you personally might be satisfied with work that you performed for them or products that you sold to your customers, your opinion doesn't count as much as your customers' opinions.

If you ask your customers how satisfied they are, you may be in for a surprise. There are many ways to measure customer satisfaction. The table below outlines different approaches that might be used.

Methods of Measuring Customer Satisfaction

Informal	Formal
Ask your customer	Interview customer contact
Ask your customer's employees	Interview customer's decision makers
	Request evaluation on completion of work (see sample on page 158)
	Send customer satisfaction survey (see sample on pages 161 and 162)

Informal Techniques

This approach involves simply checking on the customer's satisfaction at appropriate stages. Anyone involved in the customer work can be asked for feedback.

Tips for Asking for Feedback

1. Be very selective in asking for feedback.
Asking for feedback too often or of too many people suggests insecurity or lack of confidence.
2. Make it clear that your request for feedback pertains only to your good or services. Soliciting feedback for the purpose of gathering additional information about your customer activities could seriously jeopardize your relationship with your customer.
3. Obtain your customer's approval before speaking to employees.
Provided your request is framed in terms such as, "I would like to speak to _____ about the effectiveness of my services and how they can be improved," your customer will probably approve of your plans. If you don't ask for permission first, your customer may think that you are trying to work behind his or her back.
4. Ensure that your request is specific and focused.
Use the examples on page 158 to frame your questions. A vague question such as "How am I doing?" will probably be answered with an equally vague "Not too bad."
You could also ask the following questions:
 - What am I doing that I should continue to do?
 - What am I doing that I should stop doing?

- What am I not doing that I should start doing?

This will enable you to focus on specific issues and make whatever changes you and your customer believe appropriate.

Valuable as it is, the informal approach to measuring customer satisfaction has its limitations. Like a single snapshot, it provides a view pertaining to one customer matter at a specific point in time. It does not indicate whether the satisfaction has increased or decreased over time; and unless the customer is specifically asked, there will be no identification of opportunities for improvement.

Formal Techniques

It is usually more effective to measure customer satisfaction through a more formal structured approach. One such format involves interviews between you and representatives of your customer. The material contained above in “Tips for Asking for Feedback” could be used in an interview format. These interviews, conducted either by telephone or in person, can address a wide range of topics. The interviews allow direct interaction between you and your customers. They also provide your customers with the opportunity of expanding on specific answers and providing additional information. A further advantage of interviews is that they often enable you to identify additional unmet customer needs. Having identified these needs, you are well positioned to demonstrate to the customer how well you can help meet these needs. Clearly, evaluation interviews can be very effective marketing techniques.

The most cost-effective means of measuring customer satisfaction is a formal customer survey. Such an approach requires surveying your customers at fixed points in time. An ideal time to measure customer satisfaction is immediately after you have completed the work. Another would be significant dates for customers, such as fiscal year-ends or completion of routine reports.

If your survey indicates that a named customer is very unhappy about some aspect of your service,



Entrepreneur Beware

On receiving feedback, limit changes or modifications to those necessary to ensure the customer's immediate satisfaction. Unless absolutely essential, do not attempt a major overhaul as a mid-course correction. There is a significant difference between using customer feedback to satisfy an individual customer and using feedback to plan overall improvements. It is only after the immediate needs of customers have been attended to that consideration can be given to changes in practices and policies.



Entrepreneur Beware

The interview process is extremely time consuming. It is often difficult to schedule these interviews on a timely basis.

How Did I Do? (for use on completion of work)

I am committed to constantly improving the quality of my services to customers. Your feedback is an important component of this process.

I would appreciate your taking a few minutes to complete this brief questionnaire. Please feel free to add appropriate comments.

1. Services provided _____
 2. Why did you select my business? _____
 - Previous or current customer _____
 - Referral from previous or current customer _____
 - Personal relationship _____
 - Reputation _____
 - Referral from _____ _____
 - Advertising _____ _____
 - Other _____ _____
 3. When you called our office, was the telephone answered to your satisfaction?
Yes No
Comments: _____

 4. Were your telephone calls returned within 24 hours? Yes No
Comments: _____

 5. How satisfied are you with the way services were handled? (Please circle one number.)
1 2 3 4 5
very satisfied satisfied very unsatisfied
If unsatisfied, how could the service have been handled better? _____

 6. How could the overall quality of the services be improved? _____

 7. Would you recommend me to others? Yes No
Comments: _____

-

immediately investigate the concern and follow up with the customer. This will enable you to prevent a similar problem from arising in the future. You can also assure the customer that his or her opinions are important to you. Your customer will be impressed with the timeliness of your response.

Page 158 shows a sample of a customer satisfaction questionnaire. Each of the questions is designed to elicit specific feedback. The first question identifies specific services that you provided to the customer. Question 2 asks why the customer selected you. This information is helpful in planning future marketing activities. Questions 3 and 4 measure the level of the customer's satisfaction with telephone contact. Questions 5 through 7 are intended to measure the customer's overall satisfaction with your service.

The comments invite open-ended responses, while the other parts of the questionnaire can be computer-analyzed.

The best format for questionnaires is a single letter-sized form, printed on one side only. Such a questionnaire is more likely to be completed and returned than a longer one. You should send a covering letter, thanking the customer for having chosen to do business with you, explaining the reason for the questionnaire, and requesting that the questionnaire be completed and returned as soon as possible.

It is important that questionnaire respondents include individuals who make the decisions as well as other customer contacts. Ultimately, it is the decision makers who must be satisfied; it is to be hoped that their satisfaction is based on the actual users' satisfaction. Provided the sample is truly representative of your customers, the results of the survey should reflect your total customer base.

On the next page is a sample questionnaire that could be used for conducting a quality service survey of business customers. This format could be adapted for government and institutional customers.



Building Block

Conduct general customer satisfaction surveys from time to time. The benefits of these surveys will be maximized if samples from your customer base are surveyed. The survey should include satisfied as well as less-than-satisfied customers. To ensure a representative sample, respondents should be selected at random from the following groups:

- Type of customer: individual, institutional, etc.
- Size of customer, by sales or employees
- Purchasers of different goods and services
- Frequent and less frequent users
- Customers whom you supplied at different time periods

**Quality Service Questionnaire
(for business customers)**

		Strongly Agree			Strongly Disagree	
1.	You provide the level of services that we expect.	1	2	3	4	5
	Comments or suggestions for improvements:	_____				

2.	You keep us informed of new developments on a timely and proactive basis.	1	2	3	4	5
	Comments or suggestions for improvements:	_____				

3.	You understand our business and the industry in which we operate.	1	2	3	4	5
	Comments or suggestions for improvements:	_____				

4.	You add value to our business by providing general business advice.	1	2	3	4	5
	Comments or suggestions for improvements:	_____				

5.	You complete your work on a timely basis, meet agreed-upon deadlines, and respond quickly to questions and other requests.	1	2	3	4	5
	Comments or suggestions for improvements:	_____				

**Quality Service Questionnaire
(for business customers) (continued)**

		Strongly Agree			Strongly Disagree	
6.	You return phone calls promptly.	1	2	3	4	5
	Comments or suggestions for improvements:	_____				

7.	You demonstrate a genuine interest in our business.	1	2	3	4	5
	Comments or suggestions for improvements:	_____				

8.	Your fees are fair and competitive with respect to services provided.	1	2	3	4	5
	Comments or suggestions for improvements:	_____				

9.	Your brochures, mailings, and other materials are informative.	1	2	3	4	5
	Comments or suggestions for improvements:	_____				

10.	We would not hesitate to recommend you to other business acquaintances.	1	2	3	4	5
	Comments or suggestions for improvements:	_____				

	Business Name (optional)	_____				

The format used in this sample will facilitate quick and easy responses by appropriate representatives of organization customers. This format also facilitates computer-assisted tabulation of the questionnaires.



Hot Tip

To increase the response rate, the questionnaire should be contained in a separate mailing; that is, it should not be included with any other material. It should also include a self-addressed and stamped or postage-paid envelope. If you have advertising specialties such as pens, pencils, or key chains with your business name on them, include one for your customer as a thank you for his or her cooperation in completing the survey.



Shop Talk

Lorne's Story

Lorne (the videographer) developed his own version of the "How Did I Do?" survey illustrated above. Through the survey he found that many people, especially parents of newlyweds, were disappointed by the length of time it took to see the videos.

As a result of this feedback, Lorne changed his practice. Immediately after the wedding or other event, he made an edited copy of the tape and sent this copy to his customers with the request that they review the tape and, if they wished, make suggestions about how the material might be edited further. In the case of weddings, when the couple might be away on their honeymoon, Lorne sent the tape to the bride's parents. As a result of this change, his customers would see the tapes sooner and often offered suggestions for editing. They were also happier with the final product.

Making a Good Thing Better

Customer feedback is the starting point for improving customer satisfaction. Reassuring as it may be to learn that customers are generally satisfied with your service, the real purpose of the surveys described above is to identify opportunities for improvement. Improvement opportunities can be identified in a number of ways. For example, individual comments can identify specific concerns.



Shop Talk

Nancy's Story

Nancy (the computer consultant) modified the Quality Service Questionnaire above to measure her customers' satisfaction. She was pleased to see that her clients were generally satisfied with her work. She was, however, disturbed to see some customer unhappiness that they were not informed about relevant new developments in computer technology on a timely basis and that her brochures and mailings were not as informative as they would like. Several clients also suggested that she use e-mail for transmitting information.

Accordingly, Nancy decided to introduce a more interactive e-mail capability into her Web page. Once this was in place, she sent a direct e-mail to all her clients, thanking them for their responses to her survey and promoting her Web site as a way of advising customers of new developments. She also sent out regular e-mail messages to her customers to keep them up to date on new developments in which they might have an interest.

investigation indicates that a recurring problem

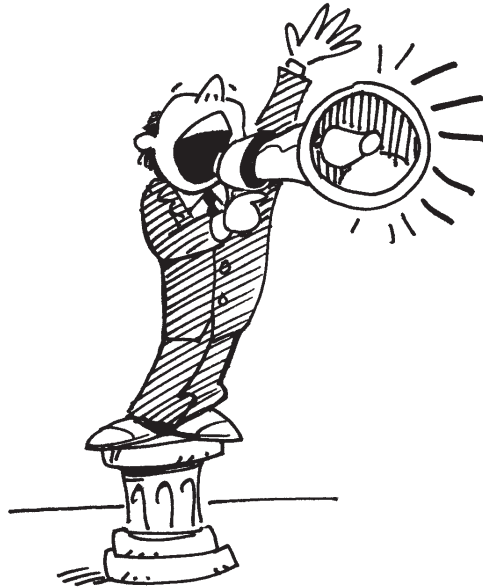
The Least You Need to Know

- Informally ask your customers or their employees how satisfied they are with your services or products.
- Conduct formal customer satisfaction surveys when you finish work or deliver products, or at regular intervals.

problem. Even if the problem is only the customer's perception that there is a problem, you should take action to address the perception.

Individual concerns could also be early indications of a growing pattern. If this is the case, corrective

action should be taken. Implementing improvements suggested by a customer survey can also provide you with a vehicle for obtaining additional feedback from customers. Once improvements have been defined but not yet implemented, you can ask your customers for their opinions on your proposed changes. The measuring process provides an invaluable “feedback loop” for customers. It is this feedback loop that provides customers with the opportunity to help you to design and deliver services that meet their unique needs and expectations.



How to Promote Your Business... Your Way

In This Chapter

- ▶ Find out who you should be reaching and how
- ▶ Making personal contacts
- ▶ Deciding what type of promotion is right for your business
- ▶ How to best communicate with others

Promotion serves two important functions. First, it reassures your existing customers that they made the right decision in choosing to do business with you. And second, it informs potential customers about how you can help them and encourages your personal contacts to make referrals to you.

There are two basic types of marketing communications. The first is by personal contact, which includes networking and taking part in clubs and associations (a form of networking). The second kind of marketing communications is what might be called planned communications. This involves using techniques such as speeches and formal presentations, seminars and workshops, advertising, direct mail, and public relations as vehicles to communicate specific information to specific people.

Whatever else you do, you should incorporate networking as a marketing strategy. But apart from networking, no one approach works equally well for everybody. It is important to select the approach or combination of approaches that work for you and your business.

Who Should You Tell About Your Business? Why Tell Them?



Building Block

It is important to keep in touch with your customers—including past customers—as well as your network of contacts, so that they know you are still in business. The principle “out of sight out of mind” applies in business relationships. If you don’t keep in touch with them, your clients and contacts might forget about you and deal with the competition instead.



Building Block

Networking is the basis of all successful businesses. It expedites the process of matching customer needs with the people and resources. Effective networking involves more than simply maintaining casual relationships with others. To promote your business, your conversations must move beyond small talk and focus on exchanging information about business activities so that you can become aware of and respond to new opportunities as they arise.

Essentially there are two groups of people for you to reach. First, you must talk to your clients. Note that this category also includes clients for whom you have provided good or services in the past. In talking to them, you will provide them with information that confirms the rightness of their decision to do business with you. You will also want to inform them about new developments, encouraging them to continue to do business with you.

The second group includes potential clients, that is, those people for whom you have not yet provided goods or services, and your network contacts who do or could make referrals to you. It is important to ensure that your contacts know enough about what you do so that they can promote you to their contacts. In communications with your contacts and potential clients, you can also demonstrate your skills and expertise, again encouraging new business from these two sources.

Making Personal Contacts

The primary means of communicating with others is through personal contact.

This helps to establish and maintain personal relationships with clients, potential clients, and referral sources. The most common means of doing this are by networking and participating in clubs and organizations.

Networking

Networking is the practice of establishing and maintaining personal contact with a broad range of individuals. It is one of the most effective marketing techniques available because it has many long-term benefits. The personal contact goes beyond mere social interaction. Relationships with individual

contacts are maintained primarily for the purpose of exchanging mutually beneficial information. Regular contact with members of your network also enables you to monitor new developments affecting your clients. You can then respond effectively to shifting client needs and demands.

Membership in Clubs and Organizations

This strategy is actually a form of networking. It includes membership and participation in sports, social, community, and charitable organizations. It does, however, require constant participation in the organization. Like all networking techniques, it yields long-term benefits.

To learn more about networking and participating in clubs and organizations see *Networking Is More Than Doing Lunch: Big Networking Ideas for Your Small Business*.



Entrepreneur Beware

When you participate in clubs or organizations, you must be committed to the goals of the organization and enjoy your involvement. If you join for business purposes only, other members will see your participation as a sham and be reluctant to deal with you. You will have the opportunity to meet potential clients but you must develop that part of the relationship outside of the organization to ensure effective marketing.

Planned Communications

The purpose of planned communications is to present messages about yourself and your ability to assist clients. These messages are directed to specific individuals or groups and are carefully planned and organized.

Speeches/Formal Presentations

These are presented to specifically identified groups. They are ideal opportunities to demonstrate your knowledge of a particular subject and can be used to confirm your expertise in existing service areas and to introduce your expertise in new service areas. The benefits of these approaches are usually short term.

Prior to the presentation you should obtain information about your audience so that you can address their level of knowledge of your subject matter. It is also a good idea to obtain a list of people who attend your presentation so that you can follow up by providing more information.

Conducting Seminars and Workshops

In contrast to speeches and other formal presentations, seminars and workshops involve more interaction between the presenter and the audience. The audiences are often smaller.



Hot Tip

You can still make use of speeches, formal presentations, seminars, and workshops even if you are not a skilled speaker or instructor. By sponsoring an event at which a qualified person speaks to your customers or potential customers, you can enhance your profile and are perceived as someone who cares about customers. These kinds of events make excellent value-added services for existing customers and they provide an opportunity for potential customers and new personal contacts to meet you.

The interactive format enables you to exchange information with those in attendance and for them to exchange information with each other. Short-term benefits can be expected from seminars.

The same comments made regarding speeches and formal presentations also apply to seminars and workshops. But on top of that, because these formats are more interactive, they will enable you to develop more personal relationships with individual participants. Good communication skills and group leadership skills are required.

Print Communications

Included in this category are brochures, circulars, flyers, and similar printed material. This format can be effectively used to communicate unique features of your business to clients and potential clients. You can distribute your material in person when you meet new contacts, by mail as part of a follow-up strategy, or in a direct mail program. Benefits will be long term. With appropriate computer equipment, you can produce some of these materials yourself.

This approach is very effective when combined with oral communications. The print communication reinforces your spoken message and serves as a reminder of you and your presentation or workshop.

Advertising

Advertising is paid promotion of your business. Because you control the message, advertising is potentially very effective. Benefits will last only as long as the advertising continues.



Entrepreneur Beware

Advertising can be very expensive. It is also most effective if undertaken continuously.

There is a wide range of advertising media available. These include print and electronic media, billboards, and transit advertising. This broad choice enables you to select the appropriate advertising vehicle to reach your target audience.

Before undertaking any advertising—whether a one-shot advertisement or a series of advertisements—make sure that your customers, potential customers, and contacts are likely to be familiar with the media you choose.

Direct Mail

This approach involves mailing specific information to individually identified contacts. Newsletters are currently a popular form of direct mail. This technique is a very effective means of telling individual contacts about new developments in your business. It is also a good way to keep in touch with all of your network contacts: existing clients, potential clients, personal contacts, and referral sources.



Hot Tip

Direct mail can be a very effective communication tool. For best results, you should avoid using mailing labels and print addresses directly onto the envelopes. Experience has shown that the use of postage stamps rather than stamped meter postage increases the effectiveness of the mailing, since recipients are more likely to open and read that mail.

Writing for Publication

This includes preparing written articles for publication in journals, magazines, newsletters, newspapers, etc. published by others. It also includes writing books for publication by others or yourself. This is an excellent approach for increasing your personal profile and professional credibility. It also enables you to demonstrate your specialized knowledge and expertise.

Public Relations

Public relations involves using the media to generate free publicity for you and your business. It might take the form of an article written about you and your business or an interview with you on radio or television.

Unless you are well connected to media people, your best approach to media relations is to hire a public relations specialist. These people have a network of media contacts to whom they will promote you and your business. Their job will be to set up media interviews for you.

What Approach Is Best for You?

All of the above approaches will allow you to provide useful information to clients, potential clients, and referral sources. Some approaches will enable you to demonstrate your skills and expertise. Networking should be used by every business owner to maintain and expand your business. The other approaches work for some people and some businesses, so choose the methods that are right for you.

Select the approach that is most consistent with your reason for communicating, your personal strengths, and the nature of your business. Also consider the approach that will best reach the people to whom you are communicating. For maximum effectiveness, it is best to use some combination of approaches, as shown in the real life examples below.

Situations may arise in which although one approach is perfect for your purpose, you lack the personal skills to implement that approach. For example, you might want to introduce a new service to your existing and potential clients and decide that a direct mailing is the best approach. Unfortunately, you lack the computer software or writing skill to prepare the material. You can probably find someone who is in the business of providing the exact services that you need. Ask your network contacts; they can probably refer you to someone who can help you prepare the materials and complete the mailing.

Or you might believe that a news release is a good approach to announce a new service but you lack the know-how and media contacts. Again, ask your contacts for help in locating someone who runs a public relations business. Just because you personally cannot undertake an approach that seems right for your purpose, it should not stop you from finding someone else to complete the work for you.

The table below summarizes these approaches and compares their relative strengths and weaknesses.

Approaches to Promotion Communications

Approach	Strengths	Weaknesses
Networking	Helps build a third-party sales force. Provides round-the-clock marketing. Can sell yourself without being perceived as selling. Can extend your reach and image beyond your immediate circle of friends and acquaintances.	Requires discipline, an outgoing personality, and careful follow-up. Very time consuming to establish and maintain. Seldom produces instant results.
Participating in clubs and organizations	If you are committed to the goals and objectives of the club or organization, participation can be personally rewarding. Can help to increase your personal profile and to connect with possible clients and potentially influential individuals.	Participation in an organization should not be primarily undertaken to enhance your marketing strategy. Active marketing activities must take place outside of the organization's activities. Competitors may also belong to the same organization. This might limit your marketing potential.

Approaches to Promotion Communications (continued)

Approach	Strengths	Weaknesses
Speeches/formal presentations	Very flexible activities: You can tailor your message and delivery style to meet the needs and expectations of the group you are addressing.	Requires good oral communication skills. Also requires considerable preparation time and organized follow-up.
Workshops and seminars	You can demonstrate your personal skills, and it can help you to develop relationships with individual participants. Excellent opportunities for distributing printed material about you and your business. Can deal with a large volume of complicated material.	Requires well-qualified and prepared speakers addressing current topics. Requires considerable time to prepare and develop. Requires effective follow-up.
Print communications	Can be professional sales vehicles that can enhance your personal image and increase the profile of your business.	Are sales tools only; still requires personal selling. Must use continuous distribution of materials; could be costly to develop, produce, and maintain with up-to-date information.
Advertising	Very flexible market approach. Can target specific market segments. Can increase awareness of you and your business. Will help promote existing services as well as new services. Can reach a potentially large audience.	Not appropriate for all businesses; can be very expensive. Your advertising must compete with a large number of commercial messages from other advertisers.

Approaches to Promotion Communications (continued)

Approach	Strengths	Weaknesses
Direct mail	Relatively low-cost technique, especially when using appropriate computer programs. Mailings can be customized for various contacts, including specific clients. Can be very effective in yielding prospects.	Requires a versatile computer program. Must compete with the growing number of direct mailings to business people. Results in a very low response rate: A 1% return rate is considered good.
Writing for publication	Can provide useful information to clients and to potential clients. Can maintain a long-lasting presence. Reprints of your writing can be used as additional marketing tools.	Requires a considerable time commitment to properly research and prepare the material. Difficult to have material published by others; and the alternative—self-publishing—is a very onerous task.
Public relations	Comments by third parties, especially in the media, are thought to be more objective and credible.	Requires considerable time and effort. To attract the attention of media people—editors, reporters, writers, columnists, etc.—you must provide information that is newsworthy.

Communication Priorities

The following chart will help you to determine which approach is best for you and your customers. (Instructions are listed below the chart.)

Assessing the Best Approaches

Approach	My Ability	Effectiveness with Customers	Total
Networking			
Participating in clubs and organizations			
Speeches/formal presentations			
Workshops and seminars			
Print communications			
Advertising			
Direct mail			
Writing for publication			
Public relations			

1. Using a scale of 1 to 7, with 1 being the highest and 7 being the lowest, rank your own ability to undertake each category of the planned communications. Enter the number in the column labelled My Ability. For example, if you have good speaking skills but lack the resources for direct mailings, you would rank speeches/formal presentations 1, and direct mail 7.
2. Using the same scale, rank what you consider would be the effectiveness of each category in communicating with your particular client base. Enter the number in the column labelled Effectiveness with Customers. For example, if you think your clients would respond well to seminars and workshops, rank that 1; if they would not respond well to advertising, you would rank that category lower, possibly 6 or 7.
3. Add the two rankings for each category. The lower the total, the higher the priority should be.



Shop Talk

Nancy's Story

Nancy, the computer consultant, wants to demonstrate her skills and expertise. She has decided to join the local chamber of commerce. As well as the usual networking opportunities, she expects that her membership will allow her to make speeches and formal presentations about new developments in her field. She hopes that these activities will also lead to workshops and seminars, in which she can present more new developments and discuss how they apply to small business operations.

She believes that her solid credentials and strong technical knowledge will help her to be more comfortable when meeting strangers, especially as part of her speaking or workshop activities.



Shop Talk

Lorne's Story

Lorne, the videographer, concludes that he must concentrate on raising his personal profile and promoting his skill at producing videos. He decides to start networking with local clergy and florists. He will meet as many of these people as he can to introduce his services.

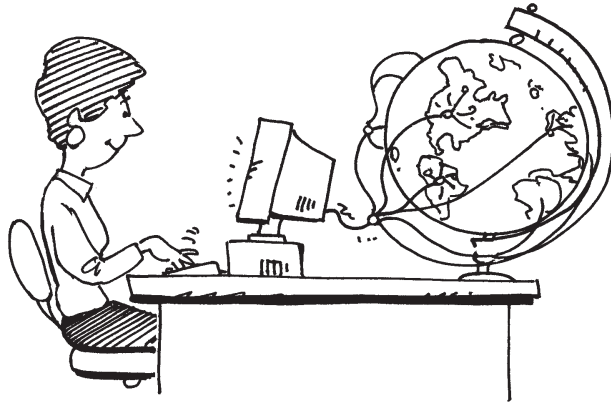
Although he would like to use some good quality print communications, he lacks the skills to put them together himself. Similarly, he would like to do a direct mailing to his and his family's personal contacts but lacks the resources to make this happen. He will ask his personal contacts for help in locating someone who can help with his print communications and direct mailing. Lorne thinks that a press release about his new business would also be helpful but he is not too sure how to go about it. Again, he decides to ask his contacts for help in locating someone to help in this area.

There is no hard and fast rule about how much money and time you should devote to marketing communications. One common approach is to commit a portion of forecast sales, usually 5 to 10 per cent. If you would like more detail in your approach, subdivide your proposed advertising by media, using such categories as print and electronic, and within those categories specify individual publications and radio and TV outlets.

When preparing your marketing communications budget, remember to include an estimate of the time that will be required.

The Least You Need to Know

- It is important to communicate with customers to reassure them that they made the right decision in choosing to do business with you.
- It is also important to communicate with potential clients to inform them about how you can help them and with personal contacts to encourage them to make referrals to you.
- Networking is the best approach for telling others about your business.
- Apart from networking, no single approach works for everyone: Choose the approach or combination of approaches that work best for you and your business.



Wired Marketing... Using the Internet

In This Chapter

- ▶ How to decide if an Internet presence is right for you
- ▶ Should I get a Web site or just e-mail?
- ▶ What you can *not* do on the Internet
- ▶ What is e-business and e-commerce, anyway?

As you are no doubt aware, the Internet is a conglomeration of thousands of computer networks utilizing a common set of technical standards to create a worldwide communications medium. It has a population of approximately 70 million users and a presence in more than seventy countries, with a growth rate estimated to be 10 per cent per month.

Initially popularized by the academic and research communities, the Internet is quickly becoming an important tool for business. In fact, it is the most popular new medium for business, with applications ranging from advertising to recruitment. Whether they are Internet junkies or technically illiterate, many people believe that it is important for businesses to have an Internet presence.

From a marketing perspective, an Internet presence is like traditional marketing. It is an activity that is undertaken to achieve specific goals. As such, it requires effective management and must be integrated with other marketing activities. It allows you to provide information about your business and, of course, facilitates networking.

It does, however, have significant differences from traditional marketing approaches. An Internet presence allows you to communicate globally. Being interactive, it allows you to both provide and gather information. This enables you to enter global markets and identify new business opportunities to generate more business for your own business.

Internet marketing also has serious limitations. There is great competition for visitors' attention. This means that your Internet communications, like your traditional communications, must help distinguish you and your business from your competition.

How an Internet Presence Is Like Traditional Marketing

A Means to an End

Before you decide on an Internet presence, identify what your clients need from you in that medium so that you can determine how you can use your resources to meet these needs. Similarly, analyze the Internet presence of your competitors in order to compete more effectively in the marketplace. Each of these procedures is something that you undertake to achieve specific goals. In other words, each is a means to an end: You should not undertake either activity for its own sake.



Hot Tip

As discussed in Chapter 17, it is important to monitor clients' satisfaction. As well as hard-copy-based client satisfaction surveys, an Internet presence can provide a good feedback loop for your clients. One of my suppliers has a client satisfaction survey on its Web site and includes a request on its invoices that its customers complete the survey. This approach makes it possible to have almost instant client feedback and take any immediate corrective action that might be necessary to ensure continued client satisfaction.

Requires Effective Management

If they are poorly managed, virtually all marketing tools can consume an inordinate amount of time and money. This is particularly true of networking and planned communications such as advertising and promotion. We have all encountered networking junkies who seem to spend more time at networking events than they do looking after clients. Similarly, other businesses seem to commit so many resources to advertising and promotion that they appear to have not much left to look after other aspects.

An Internet presence can present the same risks. Without proper planning and control it can excessively drain precious cash and time.

Integrate the Internet with Other Marketing Tools

The best marketing plans involve striking and maintaining an appropriate balance among all marketing activities. Versatile and attractive as it may appear, an Internet presence is essentially one more element to add to the marketing plan.

Provide Information About Your Business

There are many ways of proving information about your business. These methods range from detailed messages on your answering machine to some of the planned communications outlined in Chapter 17. A good Internet presence can be a very effective vehicle for providing useful information about you and your business to clients and nonclients alike.

Networking

Personal contact remains the basis of success in small businesses. Once contact has been established with another like-minded individual, it is important to keep in touch with this person. Web sites in general and e-mail in particular can help us keep in touch with our contacts. Further, e-mail and selective use of user groups and news groups make it possible to establish and maintain personal contact with a very broad and far-ranging group of people who can help you develop more business.

Electronic mail has proved to be an effective solution to the problem of telephone tag. Contacting others through e-mail has provided a new method of communication, which has both the speed of telephone conversations and the semi-permanence of postal mail.



Entrepreneur Beware

Although an Internet presence can replace *some* marketing activities, it cannot replace all of them. However, properly executed, it can be very effective in complementing other marketing tools.



Building Block

Many people use the Internet to communicate with others who run similar businesses. This allows them to share their ideas, problems, and solutions. Quite often they find that others in their field have already tackled problems similar to their own. They can then get advice on their own situations and create a solution based upon the past experiences of others.

But It's Also Different from Traditional Marketing Tools

Global Reach

Traditional approaches to telling others about your business are limited to specific groups of individuals in geographically defined areas. Realistically, it is virtually impossible to communicate globally using conventional communication tools. The Internet extends the scope of people with whom you can communicate. It gives you the potential to transmit information to everyone who has access to the Net—more than 70 million people around the world.

Multipurpose

An effective Internet presence will allow you to undertake several marketing activities simultaneously with many people. Conventional activities such as providing information, networking, and measuring client satisfaction cannot normally be completed at the same time. Few of these activities can be done effectively with large groups of people. Taken on individually, they can be very labour intensive and time consuming.

Provide Pictures, Sound, and Film Files

Internet technology makes it possible to add colourful graphics, moving pictures, and sound to individual Web sites. As a result, it is possible to add video clips, cartoons, or computer-generated graphics that demonstrate how products work. Audio clips can add personal greetings and explanations or instructions to enhance the visual elements. This allows you to make video- or audiotapes available to anyone who wants them, anywhere in the world, without the associated reproduction and distribution costs.

Create 24-Hour-a-Day Service

Web pages can provide 24-hour-a-day service seven days a week. By adding the popular Frequently Asked Questions feature, a site can provide answers to the questions that prospective clients most often ask about you and your business. Further, by adding interactive features, the site can offer customized information in response to details provided by site visitors.

Open International Markets

Since Marshall McLuhan first opened our eyes about living in a global village, we have come to realize how small our world really is. However, the jumbled mix of worldwide communication systems such as mail and telecommunications has prevented effective conversation with our village neighbours. With a Web page, it is now possible to open up a dialogue with international markets as easily as you can with the business across the street.

Provide Up-to-Date Information Quickly

The production and distribution of information in hard copy format can be a very time-consuming process. In our modern world, information often changes before it even gets off the press. With electronic publishing, it is possible to update information as it changes.

How Can the Internet Help with Your Marketing Activities?

The usefulness of the Internet as a marketing tool depends directly on the products or services of your business. Most businesses will be able to undertake some of the following marketing-related activities.

Identify New Business Opportunities

Many people are continuously on the lookout for new and innovative ideas as viable commercial ventures. Users on the Internet are constantly coming out with such new ideas, not only because of the research traditions of the Internet but also because of the cooperative atmosphere that surrounds the Internet. By checking out several small-business discussion groups, you will no doubt come up with more ideas for new business opportunities that could possibly be implemented. It is also possible to identify opportunities in the form of businesses active in other geographic markets but not in yours. Whether totally new, or simply new to you and your market, many exciting opportunities can be identified on the Net, often on business Web sites.

Identify Customer Needs

Continuing to identify and meet your clients' needs is critical if you are to succeed in your business. Traditional approaches to monitoring clients' changing needs have involved keeping in touch with clients, which includes attending the same events that they attend and reading the same material that they do. Essentially these approaches make it possible to identify the issues that matter to clients.



Entrepreneur Beware

Although instant publication can quickly disseminate information, the information may not always be totally accurate and well presented. One feature of traditional hardcopy publishing—that is, books, magazines, and newspapers—that is noticeably absent from most electronic publishing is the presence of editors. Although writers often curse these people, they do help ensure the accuracy of the published material and the elimination of typographical errors. Once unedited material has been published on the Internet, errors are there for the world to see.

Internet discussion groups allow people who share similar interests to discuss issues of mutual concern. Thus, by monitoring the online discussion of your clients or others like them, you can keep up to date on what concerns your clients have and how you might be able to help them.

Distinguish Yourself and Your Business

If you have an Internet presence but your competition doesn't, you have already differentiated your business from the competition.

If, on the other hand, your competition does have an Internet presence, by checking out what they say about themselves, you can design your site and its contents to reinforce the unique aspects of your business. Further, your competitors' Web sites are obvious sources of information about them, making it easier for you to differentiate your business from theirs.

Identify External Challenges

As an information source, the Internet is rich with news about economic and market considerations that could affect your clients and your business. Diligent research will help you learn more about factors such as economic and environmental trends, product innovation, technical advances, and new governmental regulations and how these might affect your business.

Develop More Business

An Internet presence is an ideal way to inform existing clients about all of your service offerings; they may not be aware of some of the services you offer. You can also solicit suggestions for new goods or services that your clients might like.

The Internet is a ready base of several million people from all walks of life. An Internet presence is an obvious vehicle to promote new services to existing and to new clients. In promoting your existing services to potential clients you can add testimonials from satisfied clients.

Further, a well-designed Web site can provide the opportunity to research new services and in some cases test them out.



Shop Talk

Realizing the usefulness of his Internet connection, Lorne decided to start using it primarily as a research tool and also as a promotional vehicle. He located several discussion groups dealing with video production. He is delighted with the technical advice he has received in response to his questions. He also checks wedding discussion groups to monitor the concerns of brides-to-be.

Lorne also reviews Web sites of other videographers. This helps him learn from their work and he can compare his work to theirs.

He has also decided to develop his own Web site that will feature samples of his work, tips for brides, and Frequently Asked Questions about videotaping weddings and similar events. This will help his clients get answers to specific questions when he is unavailable to deal with them in person. He will also include e-mail capability to make it easy for interested people to contact him.

What Can You Not Do on the Internet?

The Internet has developed its own set of written and unwritten rules about commercial ventures. It has several commercial backbones, which allow commercial traffic. However, the general Internet community has strong feelings about advertising on the Net. Before undertaking any form of advertising, make sure that what you propose is consistent with advertising practices that are currently found on the Net.

The traditional form of broadcast advertising over the Internet has proved to be unsuccessful. Internet users are involved in an interactive media—unlike radio or television broadcast systems—and most users take it personally when they receive unsolicited material. For example, many people have tried advertising openly on discussion groups or Internet mailing lists by posting or mailing out an advertisement to these groups or lists. These have been met with open hostility by many members in the form of flaming criticisms. The advertiser often gets deluged with e-mail complaints of its activities. Often networks have been shut down because of the number of complaint e-mails they received.

Another consideration is the difficulty of communicating effectively with words alone. Communication experts tell us that the words we use comprise the smallest component of our communication effectiveness. In spoken communications, for example, it has been estimated that perceptions of our believability are influenced as follows: 7 per cent by the actual words we use; 38 per cent by our tone of voice; and a surprising 55 per cent



Entrepreneur Beware

Words on a computer screen, which comprise the bulk of Internet communications, are like printed words on paper: These words stand or fall on their own. They cannot be made more believable by a convincing tone of voice or confident body language. Although visual graphics and sound clips might enhance the written words, they cannot totally replace the nonverbal elements of spoken communications. This makes it very difficult to communicate such personal characteristics as integrity and passion through an Internet presence.



Entrepreneur Beware

If you are thinking about enhancing your existing business into an e-business with an online presence, remember that information technology advertising and promotion can be seductive. Try to avoid being charmed by the technology component and ignoring the information element of IT.

by our body language. Clearly, the major influence on the believability of our communications is the combination of nonverbal factors.

Properly used, the Internet can be a powerful tool that can help in many aspects of marketing. One significant application is in expanding your business, which is addressed in the next chapter.

E-business, E-commerce, E-eeekk!

Running an e-business is simply an extension of running a business. As Daniel Armor explains in *The E-business (R)evolution*, recently published by Prentice Hall, "E-business is about using the convenience, availability and world-wide reach [of the Internet] to enhance existing businesses or creating new virtual business.... By connecting your traditional IT systems to the Web, you become an e-business." As simple as this comment appears, it raises a number of questions.

What IT (information technology) system do you have? How can you go about connecting it to the Web? And, probably the most important question of all, why should you connect it to the Web?

For most small business owners, the desire to connect to the Web is driven more by our society-wide obsession with technology than by well-developed business purposes. As a society, we have become obsessed with technology, spending well over a trillion dollars a year on information technology.

In an ideal world, one would expect that this massive investment of money in IT would yield impressive dividends. Unfortunately, that is not the case. Thomas H. Davenport, a leading authority on the relationship between IT and business economics explains, "Even the most rigorous economists have difficulty finding correlation between IT spending and productivity, profits, growth, revenues, or any other measures of financial benefit." And that's not

all of the bad news. He continues, "Surveys of managers suggest that they feel the information they get today is no better than it ever was." In a nutshell, this means that the trillion-plus dollars that we spend on IT each year does not significantly benefit business operations. How can that be possible?

Two reasons might be offered for the overspending in information technology. First, we have historically believed that the latest technical innovation would solve, if not all, at least most of our problems. This was true of steam-generated power, railroads, the internal combustion engine, electricity, and so on. Information technology is the latest in a series of promising innovations with the potential to improve the way we do things.

Second, as a consuming society, it is easier to buy something than to identify and take the hard steps necessary to make a difference. Seduced by persuasive advertising, we find it easier to purchase the power tools than to actually build the long-planned addition to the house. It is easier to buy some workout equipment or perhaps a membership in a health club than to take the steps necessary to get into shape. By extension, buying technology is much easier than learning how to manage information effectively.

Davenport explains how this works in practice: "As consultant and author Tom Peters once noted, success in managing information is 5 per cent technology and 95 percent psychology—but most companies do not even spend 1 per cent of their information management time and expense budgets on psychological or human issues."

Should you go online if only a few, if any, of your customers and other contacts are now online? Hard to say. If you are unsure about whether or not to take the plunge and become an e-business, ask your customers. If it will help them, by all means go ahead. If it won't make a difference to them, will it still help you? If it won't help either you or your customers, perhaps it is worth waiting until it will benefit you and your customers before you make the move.

E-commerce is essentially about selling goods over the Internet. Internet selling is best suited for either generic types of consumer goods with mass-market appeal or specialty products with limited appeal. Large organizations like Chapters and high-profile retailers like Roots use the Internet as another sales outlet. This is comparable to catalogue sales. The jury is still out on their success from this method of marketing. At the time of writing this material (June 2000), Chapters have yet to realize a profit from chapters.ca, having reported losses of millions of dollars on its venture.

By offering specialty goods with limited appeal, like antiques or works of art, over the Internet,



Entrepreneur Beware

With today's trend toward big box stores, few small businesses survive selling generic consumer goods in competition with large retailers. Attractive as the Internet option might be, it will not automatically level the playing field.

sellers are trying to extend the reach of their promotional activities. Instead of offering their goods to a limited geographic market, the market can be extended through the Internet to include everyone in the world who might be interested in the specialty goods. And with the extension of the market comes an entirely new set of problems, the most significant of which are how the goods are going to be paid for and delivered.

Are e-business and e-commerce viable options for your business? The answer depends on you, your business, and your customers. As with any major business decision, research it carefully and think it through completely. There is a wealth of information available in books and magazines as well as electronically. Don't make your decision without doing your research.

The Least You Need to Know

- An Internet presence is similar to traditional marketing tools: It is a means to an end that must be managed effectively and integrated with other marketing tools to provide information about your business and to facilitate networking.
- An Internet presence can also do more than traditional marketing tools. Among other things, it can extend your reach, give you a 24-hour-a-day presence, and allow you to provide up-to-date information quickly.
- Like all technological advances, Internet marketing does have its limitations.
- Both e-business and e-commerce can, but not necessarily will, help you run your business more effectively and serve your customers better.



How to Obtain More Business for Your Business

In This Chapter:

- ▶ How to identify opportunities for expansion
- ▶ Basic approaches with existing and potential clients
- ▶ Should you provide new services and goods, or find new customers, or both?
- ▶ A sure-fire way to obtain more business

There are only two kinds of customers: current customers, which include previous customers, and potential customers. And there are only two basic things you can do for each of these kinds of customers. You can provide them with goods and services that you currently offer or you can provide them with new goods and services.

The best place to look for opportunities to supply more of your existing goods and services is with your existing customer base. After all, you already have relationships with these people, and they are familiar with the goods and services that you offer.

When you are ready to start something new, consider what new goods and services you can offer to your existing customers. If you don't know what goods and services they would like from you, ask them.

When you are satisfied that your existing customers are being well served, you can begin actively looking for new customers to whom you can supply existing goods and services. This would be an appropriate time to start asking your existing customers and network of contacts for referrals.

The least effective approach to obtaining more business is to start offering new goods and services to new customers. It is not a good idea to pursue this approach unless you have exhausted all possibilities using the other three approaches.

The Basic Approaches

From a marketing perspective, there are only two basic kinds of customers. First, there are those customers who have purchased either or both of goods and services from you. For present purposes, this includes past customers who at one time purchased something from you but no longer deal with you. These customers, regardless of whether or not they currently do business with you can be called *existing customers*. Everyone else represents the second kind of customer in the world who has never purchased anything from you. These people, regardless of whether or not they are ever likely to purchase anything from you can be called *potential customers*.

Realistically, these two types of customers, existing and potential, represent the only sources of new business. There are only two ways to obtain new business from each of these two sources. You can provide *more of your existing goods and services* or you can provide *new goods and services*.

Four Basic Approaches to Obtaining New Business

	Provide More Existing Goods and Services	Provide New Goods and Services
Existing customers	Provide more existing goods or services to existing clients	Provide new services to existing clients
Potential customers	Provide existing goods or services to new clients	Provide new goods or services to new clients

What's Good and Bad About These Approaches?

Each of these approaches works for all businesses. However, some approaches are more appropriate for some businesses than others. The table on the next page outlines some of the relative advantages and disadvantages of each.

Advantages and Disadvantages of Basic Approaches to Obtaining New Business

Approach	Advantage	Disadvantage
Provide more existing goods and services to existing clients	Can build on existing relationships with clients and expertise in service delivery.	Limited opportunity to expand client base and range of goods and services.
Provide new goods and services to existing clients	Can build on existing relationships with clients to develop expertise in new service area.	Limited opportunity to expand client base.
Provide existing goods and services to new clients	Can build on existing expertise to expand client base.	Limited opportunity to expand range of goods and services.
Provide new goods and services to new clients	Expands client base and range of services simultaneously: Feedback will be more objective.	Very difficult to learn new goods and services and develop relationships with new clients simultaneously.

The Four-Step Sure-Fire Way to Obtain More Business

The following steps detail how to use each of the approaches to identify and develop new business. This process involves synthesizing the information that has been gathered and developed throughout this book. For maximum effectiveness, follow the process one step at a time, beginning with Step 1.

Step 1: Identify Existing Customers for Existing Goods or Services

If you have just started your business, you probably don't have existing customers. Skip this step as well as Step 2 and go to Step 3. Instead of asking existing clients for referrals, ask personal and business contacts who meet the profile of existing clients for referrals. Once again, you will use the customer list that you prepared in Chapter 13.



Hot Tip

If you don't already use one, buy, install, and use a good contact management software program such as Maximizer or Actus. These programs allow you to manage your dealings with all of your contacts, from customers and current contacts to potential customers and individuals who might be able to help you. As well as recording details of your dealings with these people, the software has a word-processing capability to prepare and record individual and mass mailings, invoices, notes, and follow-up dates. It is hard to imagine how anyone can efficiently run a business without this software.



Hot Tip

Make sure that your customers—whether active or not—know about all of the goods and services that you provide. Chances are that many of your customers buy from your competitors because they don't know all of what you can do for them.

Once you have identified your customers, you are ready to start the process of identifying new business opportunities. Ask yourself the following questions. Make a couple of photocopies of the form at the end of this section of questions, and use these forms to record and analyze your answers.

Question 1: Are there existing customers to whom I can provide more of the goods or services already offered?

To identify individual customers, review your customer list and ask this question about each customer. If you have had good working relationships with past customers, but these people no longer actively deal with you, consider reviving the relationship. Ideally this will allow you to resume supplying them with goods and services. On the other hand, you won't want to renew acquaintances with customers who didn't pay you or otherwise caused you problems. Why set yourself up for more problems?

If the answer to this question is "No," go to Step 2.

If the answer is "Yes," go to Questions 2 and 3.

Question 2: To which existing customers can I provide existing goods or services?

Question 3: What existing goods or services can I provide to these customers?

It might be difficult to answer these questions accurately. If you can't answer based on your own knowledge, it might be necessary to review the material in Chapter 13 that relates to identifying who your customers are and what they need from you. Another alternative might be to survey some of your customers, using a procedure similar to the ones outlined in Chapter 16. If you choose this approach, modify the questions in the survey to reflect Questions 2 and 3.

Once you have identified existing customers to whom you can provide more goods and services, record the information on your form and answer Question 4.

Question 4: Does anyone else provide these goods and services?

If “No,” go to Question 6.

If “Yes,” go to Question 5.

Question 5: What must I do to increase the chance that customers will purchase these goods and services from me instead of someone else?

The comments under Question 3 above apply here as well. It might also be necessary to review Chapter 15 to analyze the competition. Once you have answered this question to your own satisfaction, you are in a position to increase promotion of your existing goods and services to your existing customers. This will involve using the approaches outlined in Chapter 17.



Shop Talk

I always found it frustrating when clients to whom I provided business-oriented legal services would take their personal legal work such as real estate purchases to other lawyers. On one occasion when I heard through the grapevine that an active business client had purchased a new home, I called my client to congratulate him on the new home and also to find out why he had hired another lawyer for the work. When I asked, “As a matter of curiosity, why did you have someone else do your legal work?” I was startled at the response.

When he said, “You do real estate?” I realized that I had been so concentrated on legal services for his business that I had totally ignored his personal needs. Like most lawyers, I assumed that all of my clients knew about all of my services. I was obviously operating under the wrong assumption.

Question 6: Do these clients really need and want my goods and services?

If “No,” don’t waste your resources trying to promote goods or services that your customers neither want nor need. Go to Step 2.

If “Yes,” go to Question 7.

Question 7: Are these clients willing and able to pay for these goods and services?

If “No,” don’t waste your resources. Go to Step 2.

If “Yes,” start to develop a plan to promote these goods and services to your existing customers.

Provide More Existing Goods/Services to Existing Customers

Customers (Question 2)	Goods/Services (Question 3)	How to Provide These Goods and Services to This Customer (Question 5)

Step 2: Identify Existing Customers for New Goods or Services

With this step, you focus on identifying new goods or services that you can offer to your existing customers. As with Step I, you will use the information that you gathered through analyzing your customers' needs and wants. It is possible that one or more customers might have suggested something new for you to sell. Or you might have come up with the idea as a result of having seen another business offer goods or services that you think your existing customers might like.

The easiest way of identifying what new services to offer is to ask your existing clients what new services they would like. This can be done either through a special survey or questionnaire or by adding a specific question to existing questionnaires. Your query might be as simple as, "Are there any goods or services that I do not offer that you could use? If so, what are they?"

Once you have identified specific new services, you then develop a plan for offering these services. Whenever possible, ask selected customers for their input in the development of the service delivery plan. This will ensure that your new service offerings will meet your clients' needs and wants. When the new services are ready to be offered, use the techniques outlined in Chapter 17 to promote your new services.

The actual process parallels the one used in Step 1. The following questions replace questions 1 through 7. The comments made above apply equally to the corresponding questions below.



Shop Talk

In Lorne's business, he noticed that the parents of the newlyweds would comment on how simple it was to view a wedding videotape compared to loading and watching home movies or films that were popular when they got married. Lorne wondered if there would be a market for converting wedding movies to videotape.

After researching the issue, he arranged to promote the services of one of his business contacts who provided conversions to video in return for a commission on sales. Now, whenever the topic of home movies comes up, Lorne promotes and arranges the conversion for interested parties. After he became comfortable promoting the new service, he sent a direct mailing to past clients announcing that this service was now available. He was delighted when clients for whom he had produced wedding videos began contacting him about converting home movies of their parents' weddings into video format.

Question 8: Are there existing customers to whom I can provide new goods or services?

If the answer to this question is "No," go to Step 3.

If the answer is "Yes," go to Questions 9 and 10.

Question 9: To which existing customers can I provide new goods or services?

Question 10: What new goods or services can I provide to these customers?

Once you have identified existing customers to whom you can provide more goods and services, record the information on your form and answer Question 11.

Question 11: Does anyone else provide these goods and services?

If “No,” go to Question 13.

If “Yes,” go to Question 12.

Question 12: What must I do to increase the chance that customers will purchase these goods and services from me instead of someone else?

Question 13: Do these clients really need and want these goods and services?

If “No,” go to Step 3.

If “Yes,” go to Question 14.

Question 14: Are these clients willing and able to pay for these goods and services?

If “No,” go to Step 3.

If “Yes,” start to develop a plan to promote these goods and services to your existing customers.



Hot Tip

The first place to start looking for new customers is within your existing customer base. If you have not asked your existing customers for referrals, now would be a good time to do so. Similarly, if you have not asked your contacts for referrals, spread the word that you are looking for new business. This is especially true for owners of new businesses who likely have more contacts than customers.

Step 3: Identify New Clients for Existing Goods or Services

No business—even the world’s largest—can expect to sell things to everyone in the world. All businesses narrow their potential customers to a more manageable range. Before charging off to try to sell existing goods and services, make sure that you have identified who your ideal customers are. Use the profile that you developed in Chapter 13. Assuming that you have done a thorough job of researching your market, you need not move beyond this profile: There will be plenty of potential customers who would make ideal customers for you.

Your network of contacts is the next best source of new customers. Their willingness to refer their contacts to you is an endorsement of you and your business. This fact will not be lost on potential customers. If your contacts do make referrals to you,

remember to thank them appropriately. Depending upon the size and nature of the business referred to you, this thank you could range from a simple phone call to gifts or, in some cases, referral fees. For further information about how to allow your network of contacts to help you with referrals, see *Networking Is More than Doing Lunch*.

Using the same process used in Steps 1 and 2 to identify potential clients, ask the following questions.

Question 15: Are there potential customers to whom I can provide goods or services already offered?

If the answer to this question is “No,” go to Step 4.

If the answer is “Yes,” go to Questions 16 and 17.

Question 16: To which potential customers can I provide existing goods or services?

Question 17: What existing goods or services can I provide to these customers?

Once you have identified existing customers to whom you can provide more goods and services, record the information in your photocopied form and answer Question 18.

Question 18: Does anyone else provide these goods and services?

If “No,” go to Question 20.

If “Yes,” go to Question 19.

Question 19: What must I do to ensure that customers purchase these goods and services from me instead of from someone else?

Question 20: Do these clients really need and want these goods and services?

If “No,” go to Step 4.

If “Yes,” go to Question 21.



Entrepreneur Beware

Do not proceed with Step 4 unless you have completed all other steps. As an example, Lorne might decide that he would like to start photographing prepared food for restaurants to add to their menus. As a videographer, he might have some knowledge of the principles of still photography, but would probably know very little about photographing prepared food, a very specialized activity. Because he probably does not know or understand the restaurant industry, Lorne will undoubtedly encounter problems establishing and maintaining relationships with potential clients.

Question 21: Are these clients willing and able to pay for these goods and services?

If “No,” go to Step 4.

If “Yes,” start to develop a plan to promote these goods and services to potential customers.

Step 4: Identify New Clients for New Goods or Services

This fourth step combines elements of Steps 2 and 3. Keep in mind that this is the most difficult approach to obtaining new business, requiring that you market goods and services that may not yet have the kinks worked out, to clients with whom you have not yet formed a working relationship.



Building Block

The four-step process is not an exercise to be undertaken only once. It is a good idea to repeat the process regularly as your business grows and changes.

If, after you have considered these four steps, you are unable to identify opportunities for new business, you have two options. First you can go through the material again, this time more thoroughly, to identify opportunities that you might have missed the first time through.

Second, if you are unable to identify any opportunities to generate new business, your business might not be viable. If this is the case, you should definitely assess the future of your business. A business that is incapable of generating new business will not last.

The Least You Need to Know

- Go through the process of identifying more business or new business opportunities when you are expanding.
- The best place to look for new business opportunities is your existing customer base.
- The next best source of new business opportunities is through referrals from customers and contacts.
- The least effective source of new business is trying to provide new service to new customers.

Part 4

Expanding Your Business

Sooner or later you will have to expand your business to continue to serve your customers. Hiring employees is not your only choice. Other viable options include making referrals, subcontracting some of your work, and entering into joint ventures and even mergers.





Referrals Are Win-Win-Win Scenarios

In This Chapter

- ▶ Learn how everybody can win from referrals
- ▶ How to make a qualified referral—make sure the client and business are right for each other
- ▶ When is it appropriate to make a referral?
- ▶ When is it best to *not* make referrals

Inevitably customers will ask for things that you cannot deliver. Instead of trying to figure out how to serve the customer yourself, consider referring your customer to another business that can help. Before making the referral make sure that the other business can in fact help, and ensure that the customer is appropriate for that business.

When you make a referral, make it as easy as possible for both your customer and the other business. This will involve providing the other business with appropriate information about your customer and vice versa. Everyone benefits from this arrangement. Your customer is properly taken care of. The other business obtains new business without marketing effort. And you enhance your relationships with your customer and the other business and also have the satisfaction of providing help (through the referral) to your customer when needed. And what is even better, you might get paid for making the referral and perhaps get referrals from the other business.

Continue to Help Your Customer... Make a Qualified Referral

As your business grows and you get better at looking after your customers, there will invariably come a time when someone requests a product or service that you simply cannot supply. Because you want to continue to look after your customer, or because you really need the money, you will be tempted to do what your customer requests, even though deep down you know you can't.



Entrepreneur Beware

To minimize risks of a referral, ensure that the referral is a win-win-win scenario in which all parties benefit. You do this by making a qualified referral. In effect, this means ensuring that the other business is qualified to help your customer. It also means that your customer is suitable for the other business.

Common sense demands that you decline your customer's request. You can, however, still help your customer. You can make a referral to another business, perhaps a competitor that you think can help your customer.

Be careful, though. Making referrals can be risky. Will making the referral be the best thing for you and for your customer? There is a risk of alienating, and potentially losing, your customer. Your customer might be upset that you are unable to help or be unwilling to deal with a new and unfamiliar business. Or, unsatisfied with the service of the other business, the customer may be annoyed that you made a bad referral and decide not to resume doing business with you. Also, the business to which you make the referral may try to woo the customer away from you. It is entirely possible that the referral results in no significant benefit to either you or your customer and only the business to which you make the referral will benefit.

Qualifying Other Businesses and Your Customers

Qualifying other businesses is all about making sure that they have the resources to serve your customers. This process is similar to what you do when you are selecting a business from which you propose to purchase goods or services. Just as you make sure that a prospective supplier can meet your needs and wants, you will want to ensure that the one that you refer can help your customer. You will consider questions such as, What are its strengths? What does it do well? What is its reputation? Are its customers satisfied with its goods and services? And so on. It might also be appropriate to check references—talk to others who have dealt with the business to find out how satisfied they were.

It is also critical to make sure that the business to which you refer a customer will not try to woo the customer away from you. Make sure that the referral is not an opportunity for the other business to entice your customers away from you. Do not just assume that the other business will not actively pursue your customer. Ensure that there is an explicit agreement that this will not happen. As part of the agreement, you, of course, will reciprocate: You will not actively pursue customers that other businesses refer to you for specific work.

Once you find a qualified business for referral purposes, ask for a supply of promotional material, including business cards. You can give this material to your customers when you make a referral, smoothing the referral process.

There are two kinds of businesses to which you can make referrals:

1. Businesses That You Know

These are the businesses owned by people you know through your normal activities. They are your network of contacts: suppliers, customers, and other folks that you see regularly at Chamber of Commerce events, service club meetings, and other business and community activities. Be warned, however, that just because you know these people and the businesses that they run, it doesn't mean that they are qualified to serve your customers. If you are not prepared to do business with them, don't expect your customers to be happy doing business with them either.

2. Businesses That You Don't Know

Just because you don't know about a business, it does not mean that the business cannot help you or your customers. What better way to get to know about an unfamiliar business than to check it out for referral purposes?



Hot Tip

When you make a referral, you will also want to assess the likelihood of the business making referrals back to you. Referring customers is a two-way street: Why refer your customers to another business if that business is not prepared to make referrals to you? If you don't know whether the business will make referrals to you, ask. It's better to ask and be sure than to assume and be surprised and possibly disappointed.



Hot Tip

As part of developing your business, build a network of contacts to whom you can make referrals. It's easier to locate referral businesses ahead of time instead of waiting for a pressing problem or concern to occur. With a network of qualified contacts in place, you can easily make effective referrals when an appropriate situation arises.



Shop Talk

Although I knew the accountants in the town where I had my law practice, I did not know the accountant in a nearby town. One day I stopped by his office to introduce myself. I explained that I thought it would be helpful for me to know him should I have the opportunity of making a referral to him. About a week or so after our meeting, he called and asked if he could send one of his clients to me. Although it was some time before I could reciprocate, this mutually beneficial relationship actually started when I qualified the accountant for potential referrals.

As well as qualifying businesses to which you plan to make referrals, you will also want to qualify the customers whom you are referring. In making the referral, exercise the same care and caution that you would if you were considering looking after the customer yourself. Ask questions such as, Can the customers' needs and wants be met by the other business? How will the customer get along with the other business and its way of doing things? Can the customer afford the cost of what is to be provided? How timely is the customer likely to pay its bill?

Also assess the likelihood of your customer returning to do business with you after the referral work has been completed. Referrals raise the possibility of customers not returning. If you want a customer to return after the referral work has been completed, make sure that your relationship with the customer is strong before you make the referral. If it is weak, do whatever it takes to strengthen it. You might even arrange to provide some goods and services simultaneously with the referred work. This will allow you to maintain contact with your customer at the same time the other business is providing its goods or services. Unless you are doing an excellent job of looking after your customers, they may see the referral as an opportunity to stop doing business with you, choosing instead to deal with your referral or perhaps even someone else.

Making the Referral

When you make a referral, ease the way for your customer and the other business. Provide your customer with some promotional material about the other business. This will help him or her learn something about the business, if only its address and phone number.

If possible, in the presence of your customer, phone and advise the other business that you would like to make a referral. Also briefly outline what the customer is looking for and how you think the business can help. This demonstrates to the customer that you

cared enough to listen and understand his or her situation. It also helps the other business develop an understanding of what will be involved in looking after your customer.

Once the referral is made, make sure that you keep in touch with your customer. By phoning occasionally, you can monitor how the referral is working. Should problems develop, you can quickly and easily assist in their resolution. By keeping in touch, you are demonstrating to your customer that you still care. It also helps remind the customer that you remain available, especially when the referred work is finished.



Hot Tip

If it is not appropriate to phone the other business with a referral, you can give your customer an introductory letter. The letter will serve the same purposes as a phone call, and will introduce your customer to the other business.

Your Customer Wins

Needs and Wants Are Met

Remember that your customers are coming to you because they have unmet needs or wants that can represent a variety of pains, problems, or potential gains. In having their needs and wants met, customers expect reliability, responsiveness, assurance, and empathy. *They do not expect you to do everything yourself.* They expect you to make referrals to someone who can deliver goods or services that you cannot, just as they expect their family doctors to make appropriate referrals to specialists.

When you refer your customers to qualified suppliers, you continue to help meet their needs and wants. Your customers will benefit because they will have their needs and wants met by a business that can help them.



Building Block

Do not make a referral without letting the other business know. The other business might simply consider your customer as drop-in trade, and might either decline to help or provide poor service. Alternatively, the customer might be seen as an opportunity to develop a new relationship. This could result in your losing your customer. Also, if the other business knows that you made the referral, that business might later go out of its way to make a referral back to you.

Preferred Status

It is not uncommon for business owners to give referred customers an informal preferred status and extra special treatment. They hope to impress the customers enough that they will promote the business, or possibly even return if there is a change in the relationship with you. In treating your customers well, they also want to impress you, encouraging you to make more referrals. Regardless of the motivation for the preferred or extra-special status, your customers will most certainly enjoy it and benefit from it.

Reassurance That You Care

Properly handled, referrals can reassure your customers that they are important to you. Simply explain that although you would love to look after them, they will be much better off dealing with someone who is better qualified to help them. This will demonstrate that you care more about helping them than simply collecting their money. The customers will take comfort in the knowledge that you will continue to be there to help them when they need you.

The Other Business Wins

New Business

To survive, all businesses depend upon generating revenue from selling goods and services. Obviously, the business to which you refer your customer will benefit from the referral. The referral represents a new opportunity to sell goods and services.

No Direct Marketing Effort

New revenue-producing opportunities are especially welcome if they arrive out of the blue without the expenditure of any time or money on direct marketing activities. In this case, the business can provide the goods or services without having to use any of its resources to attract the work. Most of us would be delighted if all of our new work came this way.

Peer Recognition

Although very satisfying in and of itself, the referral of customers represents more than just new revenue potential. The fact that you are prepared to refer a customer to another business suggests that you respect the business and its owner. We all like to receive recognition for our work and our efforts. The peer recognition that comes from referrals is always welcome.

And You Win

Expand Capacity

Although it may seem that your customer and the other business receive the major benefits from the referral, you can expect to receive some significant benefits. Not the least of these is the ability to expand your ability to assist your customers without incurring the cost of developing or acquiring new resources.

In practice, you continue to use your resources to serve your customers. However, instead of using internal resources, you draw on external resources; namely, your network of qualified

businesses. Someone else does for your customers what you cannot do yourself. Your role is to make the connection. Provided you have qualified other businesses and your customers in making referrals, you can expect to continue existing customer relationships. As a further bonus, you might even be able to benefit financially from this expanded capacity, again without incurring additional expenses. See below for details about referral fees.

Maintain Relationship with Existing Customers

As an active business, one of your most important assets is your customer base. Anything that you do to protect or enhance this asset is time and energy well spent. You can enhance your relationship with your customers by making qualified referrals. What message are you giving your customers if you can't or won't help them by making referrals? Also, how would they feel if you referred them to a business that made a mess of things? Not making a referral or, just as detrimental, making a bad referral reflects badly on you. You have worked hard to develop and maintain good relationships with your customers. Why jeopardize these relationships, especially when it so easy to enhance them by making qualified referrals?

Enhance Relationships with Other Businesses

Referrals among businesses are the best source of opportunities to sell more goods and services. By making referrals you demonstrate that you understand their importance. This positions you as someone to whom referrals can be made. When you receive referrals, you are the "other business" and, as such, receive the benefits outlined above. In business and in life, you get back what you give out. If you want referrals, you must make referrals.

Referral Fees

In some industries it is customary to pay referral fees to other businesses that make referrals to them. These fees, either a percentage of the value of the referral or a set fee, are rewards or commissions for making the referral.

The same rationale *might* apply to your industry. The businesses to which you make referrals might be prepared to pay referral fees. After all, they didn't have to pay a sales representative to generate the new work.

If you can arrange to get paid for making referrals, congratulations. If you cannot make these arrangements, don't worry. There are many other benefits from making referrals.



Entrepreneur Beware

Not all businesses are receptive to the idea of referral fees. Some, mainly professions such as law, accounting, and medicine, have strict rules against what they call fee-splitting. If someone is ethically or morally opposed to referral fees, under whatever name, they will be offended if you even suggest such an arrangement.

When *Not* to Make Referrals

When you do not have *both* a qualified customer and a qualified business, it is better to not make the referral. Explain your inability to make a qualified referral and suggest that your customer speak to his or her network contacts and ask for their help in locating a business that can help. Offer to help qualify any business that your customer might identify.

If you do make a referral in which you have not qualified either the customer or the other business, you risk annoying and possibly alienating your customer and the other business. In either case, you jeopardize your relationship with these people. It's better to make no referral than to make one that could cause you difficulties.

If you can, develop the capability of profitably delivering what your customer requires. But your customer's request might be an isolated or one-time occurrence; if so, by all means make the referral. If, however, your customer might need the same thing again or other customers might also need it, consider developing or acquiring the ability to deliver what your customer requires. Maybe you could buy it and resell it (subcontracting is discussed in the next chapter), or perhaps involve someone else in helping you serve your customer (for joint ventures, see Chapter 23). You might even consider hiring someone to look after requests of this nature (see Chapter 22 for information on hiring employees).

Do not automatically think of making a referral when facing a request you don't think you can meet. Who knows, maybe you can turn the request into an opportunity to expand your business.

The Least You Need to Know

- Sometimes the best way to help your customer is to make a referral.
- When making a referral, make sure that you qualify both the other business and your customer.
- Everybody wins when referrals are properly qualified.
- There are times when it is not appropriate to refer a customer.



You Can Accomplish More by Subcontracting Some Work to Others

In This Chapter

- ▶ What are the similarities and differences between subcontracting and referrals?
- ▶ Advantages to using a subcontractor
- ▶ When and how to subcontract your work
- ▶ The relationship between you and the subcontractor

Subcontracting is a very well known and long-established business practice. Essentially, the practice involves contracting with someone else to do work that you could do yourself. As with making referrals, it requires qualification of both the other business and your customer, and it allows you to draw on outside resources to better serve your customers.

However, unlike making referrals, subcontracting creates a role and more responsibilities for you; specifically, supervising the completion of the work undertaken on behalf of your customer. Fortunately, you will be compensated for your role.

Contracting out is a form of subcontracting. Its growth over the past few years has resulted in many new opportunities for small businesses.

Subcontracting Is a Well-Established Business Practice

Subcontracting—hiring someone else to perform work that you could or should be doing—is a well-known and widely accepted practice in business. It is, for example, a common feature of major construction projects.

Once ready to proceed with a construction project, the owner hires a general contractor to complete the project in accordance with clearly defined specifications. Although the general contractor might perform some of the construction, most of it is subcontracted out to other businesses. One company might be contracted to excavate the site, another to build the foundation, and others for various major components of the work. Each of these subcontractors works pursuant to a contract with the general contractor.



Shop Talk

You'll remember Nancy, the computer consultant. One of Nancy's clients has asked for some help in developing a new application for its database program. Although Nancy could do the work, she is very busy. She could refer the work to another business or hire a new employee to perform the work, but each option is unattractive to her in this case.

Nancy decides on a third option: to contract with someone else to perform the work on her behalf. This allows Nancy to help her client without actually doing the work herself. She continues to deal with her client. The client will specify, with Nancy's assistance, what is required, and the subcontractor will actually perform the work under her supervision. It also means that Nancy will bill and collect the total amount from the customer and, from this money, she will pay the subcontractor.

In most cases, the owner has few, if any, dealings with the subcontractors. It is the contractor, and not the owner, who is responsible for ensuring that the work is completed according to specifications. Similarly, if the subcontractors encounter problems or difficulties, it is the contractor, not the owner, who helps resolve them. The owner is responsible for paying the contractor—usually in installments—who in turn must pay the subcontractors in accordance with the terms of their contracts.

This model will work equally well for your business, regardless of what goods or services you provide to your customers.

Subcontracting Versus Referrals

There are three ways in which referrals and subcontracting are alike. Each approach

- Requires you to locate and qualify other businesses.
- Allows you to provide more service to your customer.
- Allows you to use outside resources instead of spending time, energy, and money to develop inside capability.

There are, however, some important differences. The table below outlines the major differences between making referrals and subcontracting. It assumes that you are subcontracting work to others.



Building Block

Once you make a referral, you are not involved in the relationship between your customer and the other business. The other business is responsible for satisfying the customer; the customer is responsible for paying for the work.

On the other hand, when you subcontract work, you set up two relationships. You are responsible to the customer for ensuring that the work is done as specified, even though you are not personally doing the work. You are also responsible for paying the subcontractor, even though the money comes from the customer.

Differences Between Making Referrals and Subcontracting

Item	Making Referrals	Subcontracting
Who has the customer hired?	Other business	You
Who is responsible for meeting the customer's requirements?	Other business	You
Who does the customer deal with?	Other business	You
Who hires other business?	Customer	You
Who pays other business?	Customer	You
Who pays you?	Other business, but only if there is an agreement to pay referral fees	Customer, but some of this money must be used to pay the subcontractor



Entrepreneur Beware

Because you are ultimately responsible for ensuring that your customer is satisfied, you must make sure that the subcontractor meets your customer's specifications. This means that your role will change from actually *doing* the work to *supervising* or *coordinating* the work of others. And supervising or managing someone else doing the same work is completely different from doing the work yourself. You will not necessarily be good at it.

Advantages for Your Customers and for You

If your customers need a specific service and you can find a qualified person to provide the service, you can subcontract it. Your ability to subcontract services opens the door to a virtually limitless range of services that you can offer to your customers. The only limitations on these services are your ability and your desire to locate and subcontract appropriate services.

Not only do your customers have a broader range of services, they also leave it to you to locate and supervise the delivery of these services. Thus, they enjoy a double benefit. They will have their needs and wants met by a qualified business, and they will be able to rely on you to make sure that their specifications are met. What customer would not enjoy this?

Subcontracting services increases the range of services that you can offer to your customers. The best part of this increase is that there is no direct cost to you, and it can even produce more revenue for you.

You will be paid for your efforts in locating, qualifying, and supervising the other business: The difference between what the customer pays you and what you pay the subcontractor is your compensation. However, this compensation is not a windfall profit. You will earn it.

Some Other Things to Consider About Subcontracting

As previously illustrated in the Outline of Skills table in Chapter 14, supervision and management are people-related skills. These particular skills are not normally required in a one-person business operation. Do you have or can you develop the skills necessary to supervise other people? If you do have these skills or can develop them, subcontracting can be a useful revenue-producing activity. If you don't have these skills, don't count on subcontracting as an additional source of revenue.

If you are like most people who run their own businesses, you like to have control. If control is important to you, subcontracting will be a very attractive strategy. It allows you a great deal of control over your relationships with your customer and the other business and also over the actual delivery of services.

When you make a referral, you pass your customer to another business and exclude yourself from the relationship that they develop. Although the other business may have agreed not to use the referral to entice your customer away, your customer will undoubtedly compare your service to that of the other business. If you come up short on the comparison, your customer might use the referral as an opportunity to end the relationship with you, choosing to do business with someone else instead.



Shop Talk

Nancy has selected Dynamic Database Development (DDD) as her subcontractor to provide the computer consulting work for her customer. Because of the similarity of work that she and DDD provide, she would prefer to keep DDD away from her client and vice versa. She achieves this by agreeing with DDD that she will maintain contact with her client and that if DDD requires any information, it will contract her and she in turn will contact the client.

DDD agrees to this arrangement. Insofar as dealings with the client go, Nancy retains control of this aspect of her relationship with DDD.

When you subcontract a customer's work, it is not always necessary for your customer to deal with the subcontractor. It is usually better to prevent them from dealing with each other. This minimizes the opportunity for your customer to use the referral as an opportunity to compare your services to similar services offered by someone else. It also eliminates the possibility of your customer bypassing you and dealing directly with your subcontractor should similar services be required in the future.

You subcontract customer's work to provide service to your customer. With this in mind, you can limit the information about your customer that you give to your subcontractor. The only information that you will provide is information that the subcontractor requires to do the job. Obviously you will not provide information that would help the subcontractor market its services to your customer. Attracting and retaining customers takes time, energy, and money.

When you subcontract work, the subcontractor works for you. You can and must do whatever it takes to ensure that the work meets your customer's specifications. You have the ultimate lever: the money to pay for the work done. Thus, you have ultimate control over how the work is performed. Unless the work is done in the manner that you and the client specify, you don't pay the subcontractor.



Shop Talk

As part of the subcontracted work of developing a new application, DDD would like to add a feature that Nancy thinks is cumbersome. Nancy prefers a simpler feature. Because Nancy has hired and will ultimately be paying DDD, her choice will prevail. Because she controls payment of DDD's account, Nancy can also control the work that it does.

Selecting a Subcontractor

You select a subcontractor much the same way as you select a business to which you can make referrals. Start with your own network of contacts to identify any suitable businesses. If there are not any such businesses within your existing network, ask your contacts for help in locating appropriate businesses.

You will consider questions such as, What are its strengths? What does it do well? What is its reputation? Are its customers satisfied with its goods and services? And so on.

Because you will be working with the subcontractor, it is also important to assess how well you and the other business will work together. It might also be appropriate to assess the likelihood of the subcontractor making referrals to you. Always remain alert to such opportunities.



Building Block

Before actually starting to work with your subcontractor, clarify and agree upon your and their responsibilities.

Typically, your responsibilities with a subcontractor would include the following:

- Provide the subcontractor with appropriate specifications, which your customer would have developed. These specifications include details of what work is to be done, and when and how much it will cost.
- Supervise or otherwise monitor the subcontractor's work.
- Pay the contractor when the work is completed as agreed.

Your subcontractor's responsibilities would include the following:

- Complete the work as specified.
- Report to you and keep you advised of progress.

Although not legally required, it is a good idea to document the terms of the agreement in writing. This will help avoid any misunderstanding. It is not always necessary to involve your lawyers in preparing an agreement. A simple letter such as the sample below should suffice. Obviously, with more complex agreements you may benefit from the assistance of some good legal advice.

Subcontracting Agreement Letter

Between Nancy and DDD

Dear David:

As discussed, these are terms of your providing database design work for me. I will

- Provide you with the specifications. When necessary I will contact my client for any necessary clarification.
- Pay you the sum of \$2500 plus GST on completion of the project, provided that my client and I are satisfied that the work was completed in accordance with the specifications.

You will

- Complete the work in accordance with the specifications. If you require any clarification, please contact me directly.

I trust this confirms our understanding. If you are agreeable to these terms, please sign the enclosed copy of this letter and return it to me.

Yours truly,
Nancy



Entrepreneur Beware

It is important to ensure that the activities of your subcontractor are limited to the activities set out in the contract. Under no circumstances should your subcontractor be allowed to represent you or to make commitments on your behalf. Should this happen, you may find yourself subject to legal obligations that you do not know about and most likely would not have agreed to.



Hot Tip

For the small business owner, contracting out can yield several noneconomic benefits. It opens up opportunities to perform, on a fee-for-service basis, contract work that was formerly performed in-house by employees of larger organizations. Further, many skilled people now provide services on a contract basis that are similar to the services that they formerly provided as employees. This has resulted in a wealth of qualified individuals to whom work can be referred or subcontracted.

In addition to the other benefits that accrue from referrals, your subcontractor knows that you are in effect guaranteeing payment of the account. Everyone assumes and expects that the funds for the work will come from your customer. However, by hiring your subcontractor to perform specific work, then if the work is done as specified, you must pay the account as agreed, even if your customer doesn't pay you. With this added responsibility, it is obviously important to satisfy yourself that your customer has the resources to pay for the work requested.

Contracting Out

Before leaving subcontracting, it is worth discussing the term *contracting out*. In today's economic environment, contracting out usually refers to the practice of subcontracting work that was formerly done, or could be done, by employees. The expectation is that subcontracted work is performed less expensively than work done in-house. This expectation is based on the premise that in subcontracting work, only the actual service is paid for because the costs of supervision and employee benefits having been eliminated.

It is not only client work that can be contracted out. Any service that the small business requires—ranging from accounting to writing—can be contracted out. In the past, when business owners needed extra help they hired additional employees. Now, most owners contract out work that they can't or don't want to do.

As attractive as contracting out may be, there are occasions when hiring employees is the best option for expanding your business. The next chapter outlines what is involved in hiring employees.

The Least You Need to Know

- Subcontracting is a well-established business practice, and it will allow you to do more for your customers.
- Although subcontracting is similar to making referrals, it carries extra responsibilities for you.
- Your subcontractor should not be able to make binding commitments on your behalf.
- Contracting out offers many new opportunities for small businesses.



Hiring an Employee—The Traditional First Expansion Step

In This Chapter

- Things to consider before you hire an employee
- Advantages and responsibilities of employees
- How to recruit the best employees
- What happens if it doesn't work out?

Traditionally, when business owners thought of expansion, their first thought was usually to hire an employee. It was intended that the employee would help with the workload, but hiring an employee also adds a broad new range of responsibilities for the busy owner. Perhaps the most worrisome of these responsibilities is the owner's liability for harmful activities of employees while in the course of their employment. Because of these new responsibilities, it is critical to carefully consider the initial decision to hire an employee and, even more importantly, the selection of the best person for the job.

Part of the selection process involves the preparation of a job description that outlines the work to be performed by the employee and the qualifications necessary to do this work. The job description also serves as a checklist to ensure that candidates possess the qualifications necessary for the job.

Unfortunately, not all hiring decisions work out well for new employers. Government standards specify the notice period for terminating employees if it turns out that new employees are not suitable or long-term employees are no longer suitable for the job.

Before You Hire

When business owners think about expansion, they generally look to hire employees. But many aspects need to be considered before taking such a large step. The changes associated with acquiring some new computer equipment pale in comparison to the impact of hiring your first employee.



Entrepreneur Beware

You as employer are liable for what your employees do during the course of their employment. This means that you are liable for the damages arising from any harm that your employee causes while performing work for you. If, for example, while performing work for you, your employee physically attacks or sexually assaults someone, you are legally responsible for whatever harm your employee may cause.

When you become an employer for the first time, you trigger a series of new relationships, each with its own set of responsibilities. The effect of your new employer-employee relationship will be felt internally by changes in the way you normally do things. For starters, you will be required to train and supervise your new employee. These are skills that you have probably not used in running your business. You must also be prepared to delegate work; again something that you might not have done before. Instead of working alone, you will have to learn to work with someone, something that is not always easy for independent-minded small business owners to do. And, of course, once you have hired an employee you will have the obligation to continue to pay your employee on an ongoing basis, even when there is no cash flowing into your business.

There are also external implications of hiring help. Your employee can make binding commitments to people such as suppliers and customers on your behalf. It is your responsibility to limit the commitments that your employee can make and ensure that these limitations are respected.

You are also subjected to a wide range of government-imposed responsibilities. All levels of government have enacted provisions that regulate the workplace and employers' relationships with their employees.

Clearly, having an employee involves more than simply paying an individual for work done. It means a whole new set of responsibilities.

The first step in hiring an employee is determining if you have what it takes to become an employer. The following questions will help you decide this issue.

- Do you have the skills to train and supervise staff?
- If not, how will you develop them? Or who will do your training and supervision?
- Can you delegate work that you have done in the past?
- Can you cooperate with someone else in getting work done?

- Is there enough work to keep your employee busy?
- Do you have the space and equipment to accommodate an employee?
- Do you have the cash flow to support the costs of the employee?

If you have answered “Yes” to most of these questions, you can probably handle the responsibilities of hiring an employee. If, however, you have answered “No” to most of them, you might be better off referring and subcontracting work, each of which will be less disruptive to your business.

What Will the Employee Do?

Once you are satisfied that hiring an employee will be more helpful than disruptive, the next step is to determine what the employee will do. The following questions can help you with this process.

- What work are you willing to let someone else do?
- Which decisions will you be comfortable leaving to someone else to make? Are you going to let the employee order supplies? Handle cash? What other responsibilities are you prepared to give your new employee?
- What level of authority do you want your employee to have in performing his or her work?

Once you have determined what your employee will do, the next step is to identify what qualifications the employee needs to do the job. There are two major components of qualifications: experience and education.

There are two kinds of experience that will qualify individuals to do the work you want done. One is actual experience doing the specific work that you will want done. If, for example, you would like someone to provide word-processing functions in the job, your employee should have experience actually doing word-processing work.

The other kind of experience is comparable experience. In this case, the skills that were used to do comparable work can probably be used to perform your work. If you are looking for someone to do market research, a candidate with research experience but not necessarily market research experience could probably do the work.



Hot Tip

Instead of defining experience narrowly, it is better to use a broader definition. A narrow range of experience will probably limit the choice of candidates to those who have experience with the specific work you specify. Identifying a broader range of experience would allow otherwise-qualified candidates who could also do the work. This will yield a larger number of qualified people.

Specify the education required. Education is likely to demonstrate an individual's ability to think and work hard. But just because an individual has attained a specific level of education, it does not mean that the person can provide the actual skills that you require. There is, however, some work for which educational institutions provide job-specific training. If you require someone to perform a specific function such as administrative assistance or technical writing, you can specify the appropriate minimal educational level required to perform that type of work.

Sample Job Description

POSITION:	Administrative Assistant
JOB STATUS:	Full time
EMPLOYER:	John Christian Consulting
LOCATION:	Ottawa

Responsibilities:

- Provide administrative support requiring confidentiality, skills, and knowledge of policies and procedures.
- Prepare correspondence, memos, reports, and spreadsheets, and maintain databases.
- Answer incoming calls and determine appropriate and timely action.
- Organize and maintain both paper and electronic files, and update systems as required.
- Sort, distribute, and proactively determine action on incoming mail and faxes.
- Perform general office duties as required; e.g., faxing, photocopying, and maintaining supplies.
- Make travel arrangements and schedule meetings, including booking rooms and arranging conference calls.
- Work on special projects as required.

Qualifications:

- 3 years' administrative experience or equivalent education and experience.
 - Postsecondary education in secretarial studies or a business-related discipline or equivalent preferred.
 - Proficient in Microsoft Word, Excel, and PowerPoint.
 - Excellent organizational abilities, and verbal and written communication skills.
 - Demonstrated problem-solving skills.
 - Proven ability to work in a fast-paced environment under moderate supervision to meet tight deadlines.
 - Flexible and dependable.
-

Once you have identified what your employee will do and what qualifications are necessary to do this work, you can combine this information into a job description. A written job description will serve two purposes. First, it will outline the work to be done so that prospective applicants can assess their interest and qualifications in the job. Second, it will become a checklist for you to follow when screening applications and interviewing applicants. A sample job description is shown on the previous page.

Recruiting the Best Employee

Unless you have kept any unsolicited résumés that you received when you were not hiring, you will have to locate people who might be interested in the new position that you are trying to fill. There are three main approaches you can take in identifying potential employees. You can call on your personal contacts for referrals; you can publicly advertise for candidates; and you can go through an employment agency to find candidates.

One of my personal contacts routinely fills new, or empty, positions by asking contacts for referrals. His contacts can promote his business to prospective candidates, encouraging them to apply. Since his contacts know a little about the work that he does and how he does it, they can also help screen the candidates, referring only the most suitable.

If asking for referrals does not generate any potential candidates, the next step would be to advertise for candidates. There is a broad variety of places where you can advertise: newspapers, school bulletin boards, Human Resources Development Canada listings, and Internet postings. Use as few words as you can to describe the position and corresponding qualifications. Unless you want to spend a lot of time answering the phone, specify that applications should be made by written résumé only. Résumés can be mailed, faxed, or e-mailed.

Another approach would be to ask an employment agency to send you several candidates. The advantage to this approach is that the agency will pre-screen candidates and send you only those whose qualifications match your requirements. The disadvantage is that unless you are seeking highly skilled individuals, agencies are not likely to be able to access candidates who are any more qualified than those you can locate through referrals and advertising. You can expect to pay the agency a commission, which will be a percentage of the employee's expected income, if—and only if—you hire a candidate referred by the agency.



Hot Tip

Your personal contacts can be one of your best and least-expensive approaches to recruiting suitable employees. Simply let your contacts know that you are looking for a new employee and tell them a little about what kind of work the new employee will be performing. If they show interest and would like more information, you can provide them with a copy of the job description.

Using your written job description as a checklist, select the three or four candidates whose qualifications, at least on paper, most closely match your requirements. Once you have selected this shortlist, you can arrange to interview these candidates.

The job interview has three purposes. One is to clarify any questions that you might have arising from the résumé. You might want some clarification about how and where the candidate gained some specific skill or experience. Or if the candidate has held several positions in a relatively short period of time, you might want an explanation.

The second purpose of the interview is to assess how well you think you and the candidate will work with each other. On paper, a particular candidate may have excellent qualifications. However, if the two of you are not likely to work well together, the qualifications will mean nothing.

And the third purpose of the interview is to allow the candidate to ask questions about the work and the position. In preparing for the interviews, you will want to note the information that you need, and you'll also want to have on hand available information that they might request: compensation, working hours, vacation, and specific features of the work to be done. It is always prudent to check references and, if possible, past employers of the successful candidates.



Shop Talk

The first secretary I hired for my law office had such great qualifications on paper and presented herself so well in person, that I thought it unnecessary to check her references. After her first month, I let her go because of very poor work performance. At that time, one of her former employers, another lawyer, told me that the secretary had also fooled him. It turned out that he too had hired her without checking references and learned to his dismay that she could not perform the work that she said she could do. Since that experience, I have always asked for and checked references.

As well as checking references, make sure that all new employees are subject to a three-month probationary period. This will allow you and the employee an escape plan if the relationship does not work out well.

Responsibilities as an Employer

Even though the successful candidate will arrive with the skills and experience needed to perform specific work, you will still be required to train your new employee in your

procedures. The purpose of this training is to help your employee adapt to the way you do things. Without this training, you will find yourself adapting to the way your employee does things.

Your employee will also require ongoing training as your business continues to grow. As the nature of the work changes, make sure that your employee develops the skills to continue to perform the work effectively and efficiently.

One area in which owners of small businesses often neglect to provide adequate employee training is customer service. It is truly amazing how many employees are on their own when learning how to treat customers.

Employees who are supported, encouraged, and respected, treat your customers the same way. Not surprisingly, employees who are not treated this way are frustrated in their work and often take their frustration out on the customers. More likely sooner than later, customers who are poorly treated will leave. If you would like to chase your customers away, treat your employees poorly. It works every time.

You can also ask new employees to read Chapters 13 and 15 of this book as part of their orientation to your business.

The federal government requires employers to deduct income tax, Canada Pension Plan, and Unemployment Insurance premiums from their employees' compensation and to remit these funds to the Canada Customs and Revenue Agency on a regular basis. To learn more about making these remittances, contact their offices. The phone number is listed in the federal government section of your local telephone directory.

At the provincial or territorial level, there are also health insurance and workers' compensation levies to be paid. To learn more about making these remittances, contact the appropriate Business Service Centre listed in Appendix B.



Hot Tip

It is not difficult to encourage your employees to treat customers well. Treat your employees well. In practice, this means treating them the way you would like to be treated.



Building Block

Supervising employees does not mean bossing them around. While it does mean telling employees what they must do, it also involves ensuring that they have the resources they need to perform their work. They will need appropriate training, tools, equipment, facilities, and supplies. They also need your support, encouragement, and respect. You support them by helping them to feel good about themselves and the work that they do. You encourage them by helping them to learn new things and make improvements in their work. You respect them by acknowledging their strengths and accepting their weaknesses.

Provincial and territorial governments also regulate employment and workplace standards. A list of these standards and contact information is also included in Appendix B.



Entrepreneur Beware

If you think that you have just cause to dismiss an employee, you might be right. But if you're wrong, the termination might be very expensive. Check with your lawyer to be sure. The costs of defending a wrongful dismissal lawsuit will be far more expensive than getting proper legal advice in the first place.



Hot Tip

When terminating employees with notice, it is not always necessary to deal with your lawyers. Provincial and territorial labour departments can often provide excellent no-cost advice on termination of employees with notice. Don't automatically assume that your lawyer's office is the only place to get this advice.

Sorry, It Just Didn't Work Out

Not all hiring decisions are the right ones. We all make mistakes. Also, employees who were right for the job at one time might no longer be suitable. When an employee does not fit in with your business, for whatever reason, the employee must be terminated—usually, the sooner the better for all concerned.

Termination Without Notice

In all Canadian jurisdictions, you can terminate employees without notice, provided that you have just cause. *Just cause* is one of those slippery legal terms that is difficult to define in a meaningful way. Generally speaking, it refers to employees' actions that jeopardize the health or well being of other people or of the business itself. Typical examples of just cause include drinking alcohol while on the job, deliberately endangering the health or well being of others, and stealing from the employer.

Termination with Notice

Provincial and territorial jurisdictions have legislation that determines the period of notice required to terminate employees. These periods apply if there is no collective agreement in place between the employer and the employees. It is also possible to give an employee severance pay instead of giving notice. The severance pay is the amount of compensation the employee would have received had notice been given and the employee had stayed at the job until that time.

Experienced employers have found that it is usually better to terminate an employee with severance pay than to give notice. There is no end to the mischief that a disgruntled employee can cause. Better to pay the employee and be done with it than to risk sabotage of the business operation.

Appendix B contains a listing of the termination notice required in each jurisdiction.

The Least You Need to Know

- Hiring your first employee will change the way you do things and create additional responsibilities.
- Before hiring your first employee carefully consider if this is the best approach for you. If you decide to proceed, identify the work that you would like to have performed and select the candidate who is best qualified to do this work.
- Check with your lawyer before terminating an employee without notice. When terminating with notice, make sure you comply with the relevant legislation.



A Joint Venture Is Like Living Common Law

In This Chapter

- ▶ How joint ventures are similar to and different from partnerships
- ▶ The advantages of a joint venture
- ▶ How to locate potential venture partners
- ▶ Maintaining and terminating a joint venture

A joint venture involves two or more independent businesses working together on a single project, with each business sharing the profits and losses, if applicable, in a predetermined manner. The joint venture approach can be just as effective for small businesses as it is for larger multinational corporations. By pooling resources, the combined businesses can undertake larger, more costly projects than either could handle if they were operating independently.

Potential merger partners could include competitors, customers, suppliers, and distributors. Because working as a joint venture is in effect working with a partner, it is important to clarify the role and responsibility of each member of the venture. Also, like partnerships, part of establishing the arrangement is determining in advance what will happen when the arrangement is terminated.

What Is a Joint Venture?

A joint venture is a partnership typically formed to undertake a particular business transaction or specific project. Like a common law relationship, there is neither the expectation nor the obligation that the arrangement will continue indefinitely.



Shop Talk

Daniel's catering business has grown so much that he has as much work as he can handle. His multi-course dinners have become so popular that he is now receiving requests for banquet dinners. He must now address the question of expanding so that he can cater large functions. He contacts Martha, who also runs her own catering business.

After deciding to work together and accepting a large catering job, Daniel and Martha agree on how the project will be handled and who will do what and when. After they agree on the details, Daniel prepares a short written agreement, that they both sign it before proceeding to work on the job.

After the event is over and each party has received the appropriate share of the profits, the joint venture is finished, and Daniel and Martha return to running their own businesses.

In practice, joint ventures are much like partnerships. Their major benefits are based on a pooling of resources to generate a profit. Unlike partnerships, joint ventures are normally wound up on completion of the purpose for which they were established. In today's global marketplace, international joint ventures are as common as partnerships in local communities. Multinational organizations such as General Electric, Olivetti, and Samsung

enter into partnerships with other businesses to pursue new business opportunities. In many cases, these opportunities are too large for one party to undertake alone or they are located in unfamiliar or developing markets. The pooling of the resources of one or more venture partners can make the project more viable. Similarly, participation with a local partner can ease the entry into an unfamiliar or developing market.



Building Block

Similar to referring, subcontracting, and hiring employees, joint ventures represent an approach to expanding your ability to meet your customers' needs. Also like the other approaches—particularly hiring an employee—this strategy will have a major effect on how you do things.

What a Joint Venture Does for Its Members

There are many potential benefits to be gained from participating in a joint venture. These benefits include the following:

1. **Sales and marketing.** You may wish to achieve direct contact with potential customers, but not know how best to reach them. By entering into a joint venture with another business already in the market, you can rely on the expertise of the business to establish contact with your potential customers.



Shop Talk

Margaret Walsh runs Bonavista Knitwear in a remote Newfoundland fishing community. For most of the past year, she has been producing sweaters for a special craft show and sale. Unfortunately, the show has been cancelled and Margaret finds herself with a very large supply of sweaters.

By chance she meets Andre la Roche, who produces silk-screen women's wear that he sells to retailers in Eastern Ontario. Andre is prepared to refer Margaret to his customers and take a referral fee on any sales made as a result of these referrals. Margaret cannot afford the time or the money to take the trip to Ontario and suggests instead that Andre take on the sales and receive a commission. Andre doesn't like this idea because he doesn't believe that he will be properly compensated for his efforts. But hiring Andre is not an option. Margaret does not have the money to pay him and, like most entrepreneurs, Andre can't imagine working for anyone else. Ultimately, they agree to enter into a joint venture for the purpose of selling the sweaters. After the direct-selling expenses are deducted, Margaret and Andre will share the profit.

2. **Operations.** You may seek to bridge a regional gap and to gain access to familiarity with another region's labour and business practices. Although we have ten provinces and three territories in Canada, we also have at least six distinct regions: British Columbia, the West, the North, Ontario, Quebec, and the Maritimes. Doing business within a region may be different than doing business within a province or territory. For example, the traditional British environment of Victoria contrasts with the upscale feel of downtown Vancouver and even more so with the communities in northern B.C. Joint ventures with compatible businesses in those areas might achieve better results in reaching these communities.
3. **Financial.** You may seek additional capital for the venture, or you may wish to share its investment risk with another. But if all you need is money, it might be better to seek the additional capital through debt or equity financing. A joint venture allows you to obtain more than additional funding: You will also have access to the partner's knowledge, expertise, and network of contacts. And you know that they will be committed to the project.

4. **Research and development.** Your product or service may require adaptation to a local market, or the market's manufacturing needs may dictate the acquisition of a local supplier. Who better to help you with this than a business already in the local market?

Locating Venture Partners

Among the more likely partners are competitors, customers, suppliers, and distributors.



Hot Tip

In a joint venture, it is usually better if your partner's interests complement rather than duplicate yours. This will likely provide more synergy and less disagreement.

- **Competitors.** This may assure you of getting a partner that understands your business. However, such a joint venture may carry inherent conflicts on such matters as whose goods and services have priority in terms of marketing, sales, and distribution and how new products are developed.
- **Customers.** Satisfied customers are one of the most valuable assets any business can have. When looking for a venture partner, consider your customer base: Many of them would be ideal. You already have a relationship with them, and they know you and the goods or services that you provide. Assuming that they are pleased with how you have served them, who better to help you expand your business?



Shop Talk

Although Margaret and Andre could be competitors, their product lines complement each other. Customers might purchase items from both the knitwear and silk-screen women's wear product lines. Because each product line is different and because of the seasonality of Margaret's sweaters, there should be minimal conflict in marketing activities.

Margaret could have entered into a joint venture with her wool supplier, for example. Had her supplier been located in another part of the country, perhaps Nova Scotia, this joint venture arrangement would have given Margaret access to a new market, while at the same time guaranteeing the supplier a market for its wool. Obviously, had Margaret been able to enter into a joint venture with a distributor that supplied women's clothing stores, she would have no problem getting her sweaters directly into retail stores.

- **Suppliers.** A joint venture with a supplier may assure your company of a source of supply and your partner a market.
- **Distributors.** Teaming up with a local distributor may guarantee access to established routes of distribution.

Maintaining a Joint Venture

To ensure that your joint venture operates successfully, clarify your role and that of your partner before you do anything else. Along with the partnership issues outlined in Chapter 5, here are some other issues that you must resolve:

1. What will be each party's percentage ownership and the nature of its contribution? If it is not all in cash, how is the contribution to be valued?
2. What licences will each party grant the joint venture to its technology and trademarks? In what territories may they be used, and for what royalties?
3. Who will be responsible for the management and control of the joint venture? How will disagreements be handled?
4. What decisions will require approval by both parties; for example, borrowing, development, manufacture and sale of new products, territorial expansion, dividends, hiring and firing of employees?
5. How will profits and losses be shared?
6. Will the partners' liability be limited to debts of the joint venture and not to the partners' other debts?
7. Will one partner's liability for a co-partner's wrongdoing be limited to joint venture activities only. Will it be clear that partners will not be held jointly and severally liable for a co-partner's wrongdoing or tortious act (for example, the misapplication of another person's money or property) outside of the joint venture?
8. How long is the joint venture to last?
9. Will it be clearly stated that partners cannot transfer interest without the consent of the other partner (nontransferability)?



Entrepreneur Beware

Do not provide too much information to joint venture partners. Provide only as much information as is necessary to ensure that the joint venture works. Do not provide confidential management or financial information.

Ending a Joint Venture



Building Block

The best way to ensure that both parties will agree upon an exit procedure is to set it out in writing in the original agreement.

Joint ventures inevitably terminate. Most are anticipated to be short-term undertakings to be wound up when they have achieved their original purpose. In Margaret's case, described in the previous Shop Talk boxes, the joint venture will be wound up when the sweaters have been sold.

Other joint ventures might be terminated because of a change in owners, parties failing to fulfill their obligations, or changing economic and political conditions that reduce the viability of the undertaking.

There are only three basic ways to end a joint venture: a buyout, sale to a third party, or dissolution.

One Party May Buy the Other Out

With a restriction on the sale or transfer of a share, if your partner wants out, realistically you are the only possible purchaser of the share. Knowing this, your partner's offer to sell will not be generous. To avoid this scenario, make sure that your agreement contains a formula for determining the value of the joint venture for purposes of one partner buying out the other.

One or Both Parties May Sell to a Third Party

The same valuation formula that applied to the transfer of shares between partners should apply if both shares are to be sold to a third party. Note, however, that third parties are not bound by this valuation. It is little more than an agreement about your asking price. The real market value of your joint venture is the amount that a willing seller—you and your partner—will accept and a willing buyer—a third party—will pay. Because this price is determined through negotiations between buyer and seller, this price may or may not have any relationship to your valuation. But at least your valuation gives you a starting point in your negotiations.

The Parties May Agree to Dissolve the Venture

In following this approach, the normal provisions of winding up a business apply. These provisions are detailed in Chapter 28.

Like living common law, a joint venture is not intended to be a permanent arrangement. If a common law relationship proves beneficial, the parties might consider a legal marriage. If the joint venture proves successful, the parties might consider a merger, which is discussed in the next chapter.

The Least You Need to Know

- ▶ A joint venture involves two or more businesses working together on a single project.
- ▶ Joint ventures enable their members to offer their customers more resources than they could if working independently.
- ▶ Like partnership agreements, joint venture agreements should clarify the role of each party and also determine what happens when the venture is terminated.



A Merger Is a Marriage of Two Businesses

In This Chapter

- ▶ The facts about mergers
- ▶ Deciding whether a merger is right for you
- ▶ How to find potential merger partners
- ▶ Details to be disclosed by the parties
- ▶ A merger checklist will help you negotiate

A merger is the most permanent approach to expanding your business in order to serve your customers better. Like a marriage, it is a permanent change in status that requires very careful and thorough consideration before being undertaken.

There are two basic ways to bring about mergers: Either purchase an active business or combine forces with one. To locate potential merger partners, you can use the same search strategies that you followed to locate businesses to make referrals, find subcontractors, or undertake joint ventures. However, because of the more permanent and long-term effects of a merger, it is important to use even more care in the decision-making process.

In order to increase the chances of the merger succeeding as planned, it is important that both merger partners make identifiable financial and nonfinancial contributions to the merger.



Building Block

In merging with another business, you are essentially creating a partnership. The partnership is a new business, of which your business and another are combined into one. The resources of both businesses are pooled. As a result, each business can draw on these combined resources to extend its ability to serve its existing customers.

What Is a Merger?

Making referrals, subcontracting work, or entering into joint ventures are all temporary, short-term approaches to expanding your business. A merger is a permanent, long-term approach. Like hiring employees, merging with another business results in a major change in the way you do things. Instead of making decisions on your own with little or no input from others, you will have to learn to involve others in your decision-making process. Can you make the transition from performing solo to working with others as part of a team?

If you have any reservations about whether or not merger is right for you and your business, hold off on pursuing a merger. Mergers may appear attractive approaches to expanding your ability to serve customers, but they are not always easy to put together and are always very difficult to

undo. Instead of a merger, you might consider subcontracting work or developing a joint venture to serve your customers better. Each is a short-term solution with virtually no permanent impact on your business.

Purchase Another Business and Combine It with Yours

The factors addressed in Chapter 4 regarding purchasing a business are equally applicable whether you plan to purchase a business to run yourself or to merge the business with the one that you are already running. Exercise the same care in purchasing a business to merge with yours as you would in purchasing a business to run on your own.



Hot Tip

Taking over an existing business is the fastest way to expand your business.

However, when you are running your own business, purchasing another business can yield two additional benefits. When you purchase and take over an existing business, not only will you receive its tangible assets, but you will also receive the following two intangible assets: its ability to look after customers and an established customer base.

Its Ability to Look After Customers

You can use this ability to extend the goods or services that you deliver to your existing customers. This is possible only if the other business has some excess or unused ability to look after customers. If the business is struggling to keep up with its customers' demands, there is no reason to believe that after the merger, its resources will be able to serve your customers as well. As you investigate the other business, make sure that it does in fact have excess capacity that can be used to extend the goods and services that you provide to your customers.

An Established Customer Base

Ideally, these existing customers will continue to deal with you after you have purchased the business and integrated its operations into your own. In this case, these customers represent new customers for your existing goods and services. It is difficult to assess how many of a business's existing customers will continue to deal with you as the purchaser. They are more likely to continue to deal with you if there is no disruption in how their needs and wants are met. Thus, it is important for you to continue to serve these customers as well as, or preferably better than, the business that you are purchasing has served them. In investigating a business for possible purchase, ensure that you can duplicate, if not improve upon, its standard of customer service.



Entrepreneur Beware

A merger will bring about a change in the size of your business. This will probably require you to spend more time looking after the business and less time looking after customers. Do you have, or can you develop, the necessary skills to do this? Is this what you really want to do? Or would you rather continue to do what you have always done—use your skills and talents to look after your customers?

Merge with Another Business, or 1 + 1 = 1

The traditional approach to merger involves combining two active businesses into a new one. Although it contains elements of each of its component businesses, which no longer exist as separate entities, the new business is a distinct entity. Simple as the concept appears to be, it is not always easy in practice.

A partnership of novice business people is like a marriage of young people. In each case, the partners are relatively inexperienced in life, but nonetheless confident of their future together. Their lack of experience allows them to be more flexible and receptive to new ways of doing things. In developing their relationship, the parties are usually willing to accommodate each other.

A merger or partnership of existing businesses, on the other hand, is like the marriage of two older, more world-weary people. They have seen too much, probably been hurt too many times, and tend to be somewhat cynical. Instead of being flexible and open-minded, they are more likely to want to do things the way they have always done them. Given

their experience, both good and bad, it is often difficult for these parties to modify the way they think and act. It is this experience of each individual business and its owner that makes mergers so difficult to bring about.

As in finding the perfect marriage partner, it is difficult to find the ideal merger partner. And as in successful marriages, it is necessary to be flexible and make compromises, something that independent-minded business people cannot always do. Perhaps that explains why fewer than half of the mergers that are created remain successful over the long term.



Hot Tip

If you are looking for a business to buy, you could retain a real estate agent or business broker, who might know of businesses that are for sale. Also, owners trying to sell their businesses might be interested in merger proposals. As another alternative, you could advertise for businesses to purchase or potential merger partners.



Hot Tip

Before launching your merger plans, make sure that a merger will not only benefit your customers, but will also help you achieve your own business goals. In satisfying yourself that a merger might yield these benefits, consider how you can serve your customers and what you want for your business.

Potential Merger Partners

You locate potential merger partners the same way you locate other businesses for referrals, subcontract work, or joint ventures. Draw on your network of business contacts for help in locating suitable merger candidates.

The same kinds of businesses that would be suitable candidates for joint ventures would also be suitable candidates as merger partners. The difference, of course, is that joint ventures are normally limited in scope and in time, whereas mergers are limitless. It is one thing to enjoy the company of another individual on a single date; it is quite another to commit to that person for the rest of your life. Use as much, or even more, care in selecting a merger partner as you would in selecting a life partner. A messy divorce to wind up a bad marriage is a summer picnic compared with the nightmare of trying to undo a bad merger.

The Merger Process

Serving Your Customers

A major reason for merger is to offer more goods and services to your customers. However, as noted, mergers are not the only alternatives to achieve this. The following questions will help you determine if a merger is the best way of doing more for your customers.

1. What goods or services do your customers need or want that you cannot currently provide?
2. Can you refer your customers to someone who can help them? If yes, what would prevent you from making a referral?

3. Can you subcontract what your customers need or want? If yes, what would prevent you from subcontracting it?
4. Can you enter into a joint venture to help your customers? If yes, what would prevent you from entering into a joint venture?

What You Want

If, after considering the alternatives, you believe that merger is the best approach to expanding your ability to serve your customers, the next step is to satisfy yourself that merger is the right approach for you. The following questions will help.

1. Do you want to use your customers' requests as an opportunity to expand your business? If not, review Questions 1 to 4 above to find a better alternative.
2. What is the best approach to expand your business? Hiring employees? Why or why not? Merger? Why or why not? If you selected hiring employees, review Chapter 22. If you selected merger, go to Question 3.
3. How do you see your business operating three years after the merger? What goods and services do you provide? Who are your customers? What do you do?
4. What strengths did you bring to the merger? What strengths will you develop after the merger? How did you develop new strengths?

What strengths will your partner bring to the merger? What strengths will your partner develop after the merger? How can these new strengths be developed?

Questions 3 and 4 will help you develop your vision of a successful merger. The answers will help you understand what you are hoping a merger will do for you. They will also help you clarify what you are looking for in a potential merger partner. Once you have identified potential partners, it is a good idea to have them answer Questions 3 and 4. This will help ensure that you share common or at least compatible visions of what the merger will achieve. If your visions are dramatically different, you can develop a shared vision by reconciling both visions. If however, the visions are irreconcilable, it is unlikely that a merger with this partner would be effective.



Hot Tip

If you can't negotiate your own merger agreement, it is unlikely that you will be able to effectively work together. Once you have agreed to the terms of your merger, have a lawyer prepare an agreement to ensure that all relevant issues are covered and that the agreement is enforceable. Make sure that the lawyers do not renegotiate the terms upon which you and your partner have already agreed. Lawyers sell their time and like to sell as much of it as they can, even if their clients don't always need all of the services.

What Each Partner Brings to the Merger

Each partner brings two kinds of items to a merger: financial statement items and non-financial statement items.

In preparing for merger discussions, it is helpful to list all of these things in as much detail as possible. This allows each partner to assess the other's strengths and weaknesses. The table below details items commonly found on financial statements and outlines the relevance of each to merger discussions.

Financial Statement Items

Item	Details	Relevance to Merger
Cash	Cash on hand and balance of all bank accounts as of most recent month-end Include details of banks at which accounts are maintained	To illustrate cash on hand of each partner To identify potential banks for merged business
Accounts receivable	Aged list	To illustrate effectiveness of accounts receivable management
Inventory	High and low levels for past fiscal year	To illustrate effectiveness of inventory management
Land and buildings	Book value, estimated market value of each property	To identify assets that might be included in merger or sold
Equipment	Book value, estimated market value of each property	To identify assets that might be included in merger or sold
Accounts payable	List	To identify liabilities to be discharged before merger or assumed by merged business
Short-term notes payable	List	To identify liabilities to be discharged before merger or assumed by merged business
Long-term liabilities	List	To identify liabilities to be discharged before merger or assumed by merged business

Assets and liabilities that are not formally recorded anywhere are strengths and weaknesses that are unique to you and your business. They are the intangible factors that give your business its distinctive character. They will also be important factors in the new business that develops as a result of the merger.

Non-Financial Statement Items

Item	Details	Relevance to Merger
Your personal strengths	Information from Chapter 14, Outline of Skills table	Strengths that you will bring to the merger
Your network of contacts	A brief outline of how your contacts have contributed to your business	Strengths that you will bring to the merger
Unique features of your goods or services	Information from Chapter 14, table on Unique Features and Benefits to Customers	Strengths that you will bring to the merger
Your employees (if any)	A listing of employees and summary of strengths of each	Potential employees of the new business
Your customers	A listing of major customers and outline of what you do for them	Potential customers of new business
Your suppliers	List of who supplies you with what, including banking, legal, and accounting services	Potential suppliers and sources of referrals for new business
Things that you do not do well	Personal weaknesses in running your business	Weaknesses to be addressed in new business
Things that your business does not do well	Weaknesses in your business	Weaknesses to be addressed in new business

A Merger Checklist

Once you and your potential merger partner have identified what each of you can contribute to the merger, you can then negotiate the terms of the merger. Below is a checklist of items to be discussed when negotiating your merger. Apart from the first item, it is not necessary to address the issues in the order in which they are set out. It would be better to tackle the most difficult issues first. This will allow you to deal more effectively with those important issues at the beginning of the discussions when you are fresh and interested rather than toward the end when you will likely just want to end the discussion as soon as possible. The easier issues will normally take care of themselves once the more difficult matters have been resolved. Isn't that how your teachers told you to handle your homework assignments?

Merger Checklist

√	Item	Explanation
	Non-Disclosure Agreement	It is important for potential merger partners to be honest and open with each other when negotiating a merger. This will involve each party disclosing confidential information to the other. Before disclosing any confidential information, the parties should each sign an agreement prohibiting the disclosure of information obtained during merger discussions if the merger is not consummated. To ensure enforceability, the agreement should be prepared and approved by the respective parties' lawyers.
	Your completed Financial Statement Items	This will allow a potential merger partner to assess your attractiveness as a partner and will also help identify duplicate assets, some of which will be transferred to the new business and others disposed of. It will also help identify liabilities to be assumed by the new business.
	Your completed Non-Financial Statement Items	This will allow a potential merger partner to identify your unique strengths and how they will benefit the new business. It will also allow a potential partner to assess how its strengths can overcome your weaknesses.
	Your partner's completed Financial Statement Items	This will help you to assess the attractiveness of a potential merger partner and will also help identify duplicate assets, some of which will be transferred to the new business and others disposed of. It will also help identify liabilities to be assumed by the new business.
	Your partner's completed Non-Financial Statement Items	This will allow you to identify a potential merger partner's unique strengths and how they will benefit the new business. It will also allow you to assess how your strengths can overcome your potential partner's weaknesses.
	What will the new business sell?	The new business will sell some combination of the goods and services that you and your partner currently sell. What will the new business continue to sell? What will no longer be sold?
	Who will be the customers of the new business?	Most customers of the existing businesses will continue to be served by the new business. However, there may be conflicts of interests if you and your partner serve competitive clients. Which clients must be referred away if there is a conflict of interest?

Merger Checklist (continued)

√	Item	Explanation
	Financial Statement assets to be transferred to the new business	Which assets will be transferred to the new business? How will these assets be valued? Book value? Market value? Who will determine market value? What will happen to the assets that are not transferred to the new business?
	Financial Statement liabilities to be assumed by the new business	What liabilities will the new business assume? Will the original debtor remain liable for the debt?
	Non-Financial Statement assets to be transferred to the new business	Which employees of the existing businesses will be hired by the new business? What information and unique technology will be transferred to the new business? At what value?
	Location of new business	Where will the new business be located? What will happen to unused leased premises?
	Ownership share of each partner	What will be the ownership share of each partner? How will this share be valued? How will the profits (or losses) be shared?
	Active role of each partner	What will each partner do in the new business?
	Compensation of each partner	How will each partner be compensated for its contribution to the partnership?
	Major suppliers to the new business	Who will supply accounting, banking, legal, and consulting services? To facilitate referrals from suppliers of existing businesses, it might be feasible to use several suppliers for similar goods and services.
	Name of the new business	What will the new business be called?
	Formal merger agreement	Once you and your partner have agreed on these items and any more that might have arisen during the discussions, have one party's lawyer draw up a merger agreement for approval by the other party's lawyer.



Shop Talk

After months of discussions, Laurie and Marian agreed to merge their interior decorating businesses to form a new business. The new business would continue to offer the same services to residential clients that Laurie had previously offered and the services to commercial clients, previously offered by Marian.

While clearing some papers from her new desk in Marian's office, Laurie came across some correspondence from a client who was expected to be a major source of revenue for the business. The most recent letter announced that the firm would be closing its location and consolidating its operation in a distant city. The date of the letter was about the time that Marian had approached Laurie about merging. Since this was Marian's largest client, it appeared to Laurie that Marian initiated the merger discussions to save her own business. Laurie's first choice was to undo the merger that had just been completed.

Apart from the first and last items, you and your merger partner can and should negotiate the terms of your merger yourselves. This will help you learn how to get along with each other, something that is important if you expect to work together.

Also make sure that the agreement contains provisions for winding up the merger if it is unsuccessful. Not everything works out as planned. If it did, we wouldn't need erasers on pencils or divorce laws.

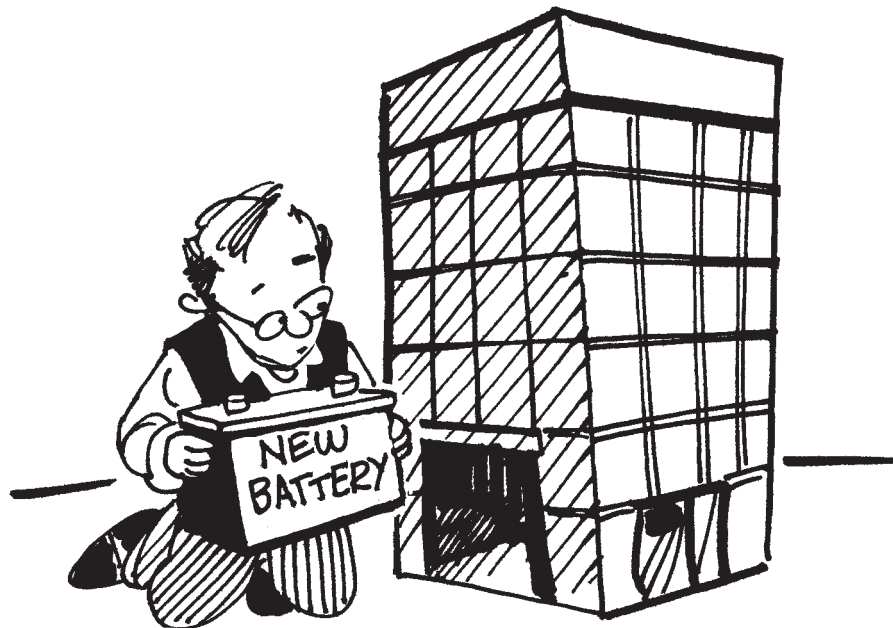
The Least You Need to Know

- Merger, which combines two businesses into one, is a permanent approach to expanding the resources to serve your customers better.
- There are two basic ways of bringing mergers about: buying a business and combining one business with another.
- For mergers to succeed, each partner must bring identifiable benefits to the merger.

Part 5

Keeping Your Business Going or Selling It

Over the long term, many business owners start to lose the enjoyment they once experienced in running their own businesses. To minimize potential harm from these situations, it is important to maintain a watch on your personal health and to protect the cash flow in your business. In some cases, the best solution is to plan to get out of the business and move on to something else.





Keep Fit for a Healthy Business

In This Chapter

- ▶ The value of exercise, healthy eating, and getting enough rest
- ▶ How to look after yourself
- ▶ When should you take a break?
- ▶ Love what you are doing
- ▶ What to do if you don't love what you are doing

Business owners often devote all of their energy to building and running their businesses only to encounter serious health problems just when their hard efforts are starting to pay off. Had they done a better job of looking after themselves, many could have enjoyed the benefits of their years of hard work.

There are three basic elements of looking after yourself: exercising regularly, eating healthy, and getting enough rest. Keeping your business alive also involves loving what you are doing so much that the down sides of running a business don't drive you crazy. If you don't love what you are doing, maybe it's time for a change.

If You Plan to Go the Distance, Look After Yourself

If you run your own business, you need to take good care of yourself. Many business owners spend considerable time, energy, and money maintaining and looking after tangible business assets such as computers and equipment. Few pay as much attention to their own health, which unlike office equipment, cannot be replaced.



Building Block

Looking after yourself means working smart and not just hard. This extends into your personal life, where keeping healthy and fit will pay dividends and help you survive and prosper in today's business environment.

It is not uncommon for business owners to devote years to building their businesses, only to run out of energy and face serious health problems just as their investment of time and energy is starting to yield dividends. Instead of enjoying the success of their labours, they are dealing with poor health often brought on by years of neglect. Many of these health problems can and should be prevented. Without continued good health, you cannot expect long-term success in your business. To ensure that your business is ultimately successful, look after yourself.

Exercise: Even a Little Helps

Regular exercise helps prevent many health-threatening medical conditions. Health professionals continue to warn us about the risks associated with too much cholesterol, too many calories, and unacceptably high blood pressure. And there is growing evidence that by exercising regularly you can reduce these risks. Further, regular exercise can help strengthen bones, thereby reducing your risk of becoming immobilized and unable to run your business.

It does not take much time to realize the benefits of regular exercise. By exercising for 30 to 45 minutes three times a week you can expect some excellent results. The time devoted to exercising will be returned several times over, in your increased productivity alone. Most people who exercise regularly report increased productivity after workouts.



Hot Tip

Exercising makes your blood circulate faster. Among the benefits of this increased rate of circulation is an increase in the supply of oxygen reaching the brain. With more oxygen, your brain works better. You will think more clearly and work more efficiently.

Eating Healthy

Another component of looking after yourself is proper nutrition. Unfortunately, too many of us eat too much of the wrong kind of foods. For many, time is so tight that they barely have time to eat, let alone enjoy their meals. They eat on the run, like an aircraft receiving in-flight refuelling from an airborne tanker. Fast food such as donuts and hamburgers are virtually inhaled, barely touching the teeth.

A better approach would be eating healthy as often as possible. There are two main ingredients to healthy eating. The first is adopting a well-balanced diet. This means eating items from all the food groups: dairy, meat/poultry/fish, vegetables and fruit, and grains/cereals. It also means avoiding fried and junk food and drinking lots of water. If



Shop Talk

After I had begun to exercise regularly, I started writing a new book, expecting to spend about three months writing it. I discovered that my daily output had increased from about 700 words to more than 1000 words, sometimes reaching 1500 words. The book was finished in two months instead of the three I had planned.

What was perhaps more satisfying than finishing the work early was the increase in quality, as measured by the revisions suggested by the editor. Instead of requiring significant changes to the content, the editor suggested revisions that related to formatting and clarification of individual words and phrases.

I have no doubt that my increased productivity was a direct result of a regular exercise program.

your diet is well balanced most of the time, there should be no problem with the occasional departure.

The second ingredient is eating slowly. This allows your teeth to chew your food in preparation for the digestive system to take over. Properly chewed food is easier to digest and requires less energy from your body. It is also a good idea to not do anything else, such as reading or watching TV, when you are eating. This enables you to concentrate on and control what you are eating, instead of mindlessly shoving food into your mouth and gulping it down while distracted by another activity.

Eating regular meals is also important. Make sure you eat breakfast and lunch but make them light. Your body needs the fuel, but a fatty meal will channel precious energy away from your brain to your stomach.



Shop Talk

It is a common practice for senior management of large organizations to provide their directors with heavy meals accompanied by generous supplies of alcohol during lunch breaks in directors' meetings. The expectation is that the food and alcohol will reduce the directors' ability to concentrate and scrutinize the more contentious issues that have been scheduled for the afternoon session. Save these meals for vacations and nonworking times.

High-performance engines require top-grade fuel. Using poor quality fuel risks clogging the components with efficiency-limiting gunk. As humans we have bodies that are also capable of high performance. Why limit their efficiency by using junk food as fuel?

You Deserve a Break

The third and final element of working smarter is ensuring that you get proper rest. From our experience with work, we have learned that workers' performance is enhanced when they take periodic breaks during the day. Similarly, we have also experienced the refreshing effect of a good night's sleep. Unfortunately, many self-employed people cheat themselves out of much-needed sleep believing that they have too much to do.



Entrepreneur Beware

Everyone agrees that alcoholism is not a good condition to have. Conversely, too many people, including individuals who run their own businesses, see workaholism—a similar condition, but with work taking the place of alcohol—as an admirable quality. Workaholism can be as destructive as alcoholism.



Building Block

To look after yourself, develop and follow a plan that involves regular exercise, healthy eating, and proper rest. Your continued good health is important. After all, you and your business depend on it.

By working more hours, many people convince themselves that they are doing more or better work. Unfortunately, this is not always true. Experience has shown us that the most rested and refreshed workers invariably do the best work. Despite the amazing technological advances that we have seen over the past decade, we have yet to see the elusive perpetual motion machine. Sooner or later all machines require some down time. So do people.

We all need breaks. In scheduling your time, plan to take regular breaks from work. This means doing nothing related to work. If you work at home, get away from home.

Use the following guidelines to schedule your breaks.

- **Weekly.** At least one day a week.
- **Quarterly.** At least one weekend away.
- **Half-yearly.** At least one week.

Although it may seem like lost or otherwise unproductive time, the dividends from these breaks will help you to sustain the energy you need to be successful over the long haul.

There is no question that you and your business can benefit from your working smart. These benefits include increased productivity, feelings of well being, and reduced risks to the continued operation of your business.

Do You Love What You Are Doing?

As noted elsewhere, the unfortunate reality of small businesses is that 80 per cent fail within the first three years of operation. There are many explanations for this: lack of planning, poor management skills, financial resources that prevent investment in equipment, staff, or training, and weak marketing approaches.

However plausible these explanations are, I do not think they go far enough. I believe that the underlying reason for this high failure rate is the frustration or even boredom of business owners.



Shop Talk

There were many reasons why I quit practising law. These reasons ranged from my then-growing frustration of dealing with other lawyers, to what a lawyer-friend described as "being overworked and underappreciated."

Disheartening as those and other explanations were, I could have coped with them had I enjoyed what I was doing. Unfortunately, the pleasure that I derived from practising law was not high enough to offset the irritations that accompanied it. Had I continued to run my own law practice, there is no doubt that my income would have fallen faster than my satisfaction level. With decreasing income, no business will survive.

For most of us, running our own businesses is more than simply a strategy to earn a living. Of course, we expect to generate a decent income. But we usually expect more than that. We would like more independence and more personal satisfaction than we experienced while working for others. Certainly in my own law practice, I could meet clients' needs as I thought best, independent of supervisors' requirements, which invariably focused more on increasing billable hours and revenue for the firm than on helping clients. It was also very satisfying to help clients achieve their personal and business goals, whether it was buying a new home, planning an estate, or building a business.

Every business generates, or should generate, personal satisfaction for its owner. What do you enjoy about running your own business? Is it your independence? The technical aspects of the work that you do? Serving your clients or customers? Interacting with colleagues, associates, or your network contacts?

Starting a new business is a very heady and exciting experience. It is like having a baby. We tend to focus on the happy, positive aspects and ignore or downplay the work and



Entrepreneur Beware

Running your own business is not always fun. Not everyone sees administrative tasks such as record keeping enjoyable, let alone exciting. Some aspects of running your own business can be very frustrating. Unless you truly enjoy pain and suffering, it will be hard to tolerate pushing yourself to keep working hard when there is no cash flowing into your business. There are countless other downsides of running your own business, especially if you do it alone.

drudgery. As parents, we love our children enough that we cope with the unpleasantness of the dirty diapers and sleepless nights.

The same considerations apply to running your own business. If you love what you are doing well enough, you will find a way of coping with the frustrating and annoying aspects. If, as a computer consultant, you love looking after your customers' computer problems, you will find a way of dealing with the never-ending administrative work. Similarly, if as a graphic artist, you love undertaking client design work, you will find a way of coping with marketing research or whatever else drives you crazy.

It is critical that you love the positive aspects of running your business enough that this enjoyment more than offsets the negative factors.

If You Don't Love What You Are Doing...Change Something

When you start to experience decreasing satisfaction, it is time to do something to bring back the pleasure that you once enjoyed. There are many things that you can change.

Selling goods and services is what businesses are all about. This means that when it is time to make a change, the first area to consider is the mix of goods and services that you offer. Providing new goods or services might be the catalyst that turns the situation around to increase your sales and make the continued operation of your business more viable.



Shop Talk

Patricia Gillard has always loved designing clothes. Already a mother of six children and a grandmother of twenty-one, a few years ago she started her own design business, Patricia Gillard's Wonderful OuterWear, in Brampton.

"It's the only business that I could run," she says. "With all the ups and downs in business, if I didn't love what I'm doing, I'd walk away from it."

When a task or procedure becomes routine and automatic, most of us begin to lose interest in doing it. A routine or automatic performance of a task can jeopardize the personal attention that helps keep clients satisfied and coming back. Providing new goods and services can revive a declining interest.

When you no longer enjoy what you are doing, everything seems to become onerous. If you do not like what you are doing, why keep doing it? It is, after all, your business. Who says you should keep doing what you do not like to do? That's for employees!

Learning new things, such as how to produce new products or the features and benefits of new products for resale, usually stimulates interest and increases satisfaction. However, before going too far down this road, make sure that you can continue to sell the modified or new goods and services. Discuss your proposed changes with your customers. If they like what they hear, you may have found a way of reviving your declining interest. Or your clients or customers may suggest other new approaches that pique your interest.

One such approach might be attracting new clients or customers. For most of us, meeting new people and developing relationships with them is usually a satisfying process. One way to implement this approach is to ask existing contacts, including clients or customers, for referrals to their friends, acquaintances, and contacts. As a side benefit, you might enhance your relationship with existing clients, another way of adding enjoyment to your business.

Another way in which you can make changes that can energize your business is to develop new contacts. When, for whatever reason, your contacts become less willing to help you and vice versa, the time has definitely come to develop some new contacts who can help you, and whom you can also help. Developing relationships with new contacts can increase the satisfaction that you derive from your business.



Shop Talk

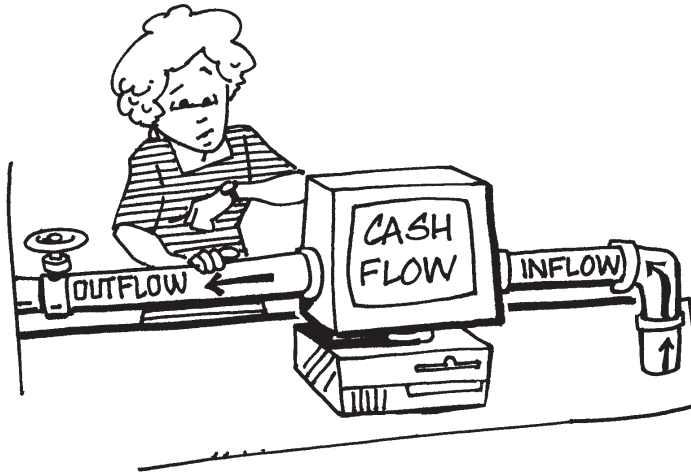
Looking back at my own situation with the law practice, and with the clarity of 20/20 hindsight, I can see that none of the suggested changes in this chapter would have increased my satisfaction. For me, the most appropriate response was to sell my law practice and move on to a more personally satisfying business activity. This resulted in a total re-examination of my personal goals as well as contemplation of the strategies that would be necessary to achieve them. Happily, this process has resulted in my developing a business based on writing. In effect, this business is an extension of what I enjoyed as a practising lawyer: helping individuals to achieve their personal and business goals.

My own experience in starting and running a small business—my law practice—is not unique. Many entrepreneurs find that once the excitement of building something new has passed, their businesses become less satisfying and they start to lose interest. Running the business is often not nearly as satisfying as starting one. If running your business is becoming less enjoyable, do whatever it takes to stop this erosion.

Once your satisfaction level starts to decline, your business revenue and your personal income will soon follow. The bottom line for everyone who runs a small business is simple: If your business is to survive, you must continue to enjoy it.

The Least You Need to Know

- To ensure that you achieve your goals, look after yourself.
- Looking after yourself involves exercising, eating healthy, and getting proper rest.
- You must continue to love what you are doing; if you don't, change something.



To Survive, Your Business Needs Cash Flow

In This Chapter

- ▶ Managing your cash inflow and outflow
- ▶ How to avoid late-paying or nonpaying customers
- ▶ Dealing with credit
- ▶ Options to increase cash flow

We all like to see cash flowing into our business. As well as telling us that our customers like our goods and services well enough to pay for them, it also means that we will have some money to pay our bills and, if we are lucky, some cash left over for us to spend on things we enjoy. It is this inflow of cash that allows us to continue to operate our businesses.

Cash flow is not an accidental by-product of running your own business. You must take steps to make sure that cash continues to flow into the business. You must also control the cash that flows out. When and if cash stops flowing into your business, you must arrange cash infusions if your business is to continue.

Manage Your Cash

Cash flow is one of the many aspects of your business that you must learn to manage. Effective management allows you to anticipate cash shortages and, ideally, take steps to prevent them. If you do not effectively manage your cash flow, you will face the challenge of coming up with money to keep the phone company from disconnecting



Building Block

Monthly statements of revenue and expenses will help identify peaks and valleys of your revenue and expenses. In preparing cash flow forecasts for your second and subsequent years, use the actual results from your first year as a model.

To estimate income and expenses, consider individual items for the same month in the preceding year. Is the amount likely to be the same, higher, or lower than it was during the first year? By repeating the same process every year, you will be well prepared to manage your cash flow on an ongoing basis.

your telephone service. In various business ventures, I have experienced the satisfaction of heading off cash shortages and have also had to scramble for money to meet payroll obligations. Believe me when I say that scrambling to meet financial obligations is one of the most frustrating and demoralizing aspects of running a business. Do whatever it takes to prevent that situation from arising. The best prevention starts with forecasting your cash flow. This allows you to manage it and prevent cash crises.

Chapter 9 introduced the concept of a cash flow forecast as part of starting your own business. Preparing this statement is an exercise in crystal-ball gazing. Because you do not have any actual results on which to base your forecast, your projections are little more than educated guesses. Don't let this discourage you from preparing an annual cash flow forecast. You can always revise it as you begin to see actual results from your operations.

Managing Cash Inflow

For active businesses, there is only one source of business income: customers who pay for the goods and services that you provide. (Although it is possible to generate income from investments, including the rental of property, investment-oriented businesses are beyond the scope of this book.) This means that simply following the suggestions contained in Part 3 does not necessarily mean that your business will survive. Your customers must pay for what they buy from you.



Shop Talk

For many experienced professionals, warning bells start to sound when a new client complains about a previous advisor. This is especially true when the client asserts that the previous advisor refuses to release the client's files and related documents. Through bitter experience, many professionals have learned that the real problem was that the client couldn't or wouldn't pay their previous advisor's bills. It is always better to satisfy yourself that your new client can and will pay your bills than to automatically assume that he or she was mistreated by the previous advisor.

Obviously, before agreeing to sell anything to any customer, it is critical to satisfy yourself that the customer can and probably will pay you. The best approach is to try to prevent situations that might result in the development of delinquent accounts. In other words, try to avoid situations in which you either will not be paid or, if paid, will be paid late.

Credit Granting and Billing Policies

Item	Explanation
Credit application	When you grant credit, you are in effect allowing someone to use your money. Use as much care in granting credit as institutional lenders do. Develop your own credit application based on what the banks do. Use the information on the application to decide if you are prepared to lend your money to this customer. Are you likely to be paid?
Credit bureau report	Credit bureaus collect and report information about the credit histories of individuals and organizations. Before agreeing to grant a large amount of credit, check with your local credit bureau to determine if the customer is credit worthy. Check with your banker to locate a credit bureau you can join.
Negotiable terms	Arrange payment terms that your customers are likely to be able to honour. There is nothing to be gained from rigid terms if your customer can't meet them.
Deposit	If you are performing services that will be spread over a period of time, ask for a deposit of 10 per cent in advance. If a customer cannot pay 10 per cent of your bill, how can it pay 100 per cent?
Installment billing	Bill monthly or at significant stages of your work. If a customer cannot pay the installments, you can cut your losses before they become too large.
User-friendly invoice	The easier it is for a customer to understand your invoice, the sooner it will be paid. Be sure to include an invoice number. As well as complying with Canada Customs and Revenue Agency standards, this will make it easier for you to track your invoice when dealing with your customer.
Duplicate copies of invoice	This allows your customer to keep a copy and to send a copy with its remittance. This can expedite the payment of your account.
Penalty for late payment	Sometimes this stick encourages prompt payment.
Discount for early payment	And sometimes this carrot also encourages prompt payment.



Hot Tip

Unless you make other arrangements with your customers, make all of your accounts payable on receipt. If the account has not been paid within 30 days, make a follow-up telephone call as soon as you can after 30 days.



Hot Tip

One of the best ways of minimizing problems with delinquent accounts for services rendered is to adopt the practice of requiring a partial payment in advance, and then the balance payable by installments as the work proceeds. Following this approach, you would request 10 per cent of the anticipated total fee before starting to work for a customer. If the customer cannot or will not pay this deposit or advance, it could be an omen that you might have trouble collecting the rest of your bill.

This preventative action starts with developing and following policies regarding granting credit in the first place and then billing and collecting accounts. Make sure that these policies are in place before you send your first bill to your first customer. The table below outlines some factors to consider in developing your credit granting and billing policies.

When collecting accounts, remember that the older the account becomes, the more difficult it is to collect it. The first danger sign occurs when the account becomes 30 days old.

For large organizations, after 30 days call the accounts payable department and ask for a status report on your account and when you can expect to receive the cheque. Because you will be speaking with an employee who does not directly manage the funds, neither they nor you will be embarrassed by your call. Your call will also allow you to sort out any difficulties that might have arisen as the account works through your customer's accounting system. If the account has gotten lost in the system, with the help of your customer's accounts payable clerk, you can get things back on track.

When your customer is a small business, it is a good idea to call soon after you have sent the account to make sure that everything is in order. If there are any problems with your work or your goods, you can resolve the problems as a separate issue from trying to collect the account.

If the account is not paid as agreed, call your customer and check on the status of the account. This will help you gauge if your customer is experiencing a temporary cash flow problem, in which case you will have to work out some payment arrangements.

If you do not like making these calls, have someone else make them for you. Just because it's your money, it doesn't mean that you must put yourself

through extra stress collecting what is owing to you. You can pay for this service by the hour or by results. Regardless of how you pay, if a third party collects your money for you and eliminates some stress from your life, it's money well spent.

A good way to avoid nonpayment or late payment is to obtain a partial payment in advance. Then, with a portion of the fee paid in advance you bill a portion of the amount at regular intervals until you have finished delivering services. The intervals could be either

when significant stages of the work have been completed, monthly, or in equal installments over specific periods of time. By following this approach, your exposure to possible bad accounts is limited. If your customer cannot or will not pay, you will know sooner rather than later. In order to cut your losses, you will simply stop doing work for customers once their accounts are overdue.

At some point, some of your customers will simply refuse to pay their accounts. You can simply write the accounts off or try to collect them through legal action. If you believe that you have a good case and that your customer has money available, you can start a court action to collect the money owing. In doing so, keep in mind that court actions are neither fast nor inexpensive. Further, you may succeed in getting a judgement against a defaulting customer and still not recover your money.

Once you have started a court action to collect money from a customer, you are not likely to do business with that particular customer again. If the customer is experiencing a temporary cash flow crunch, as many small businesses do, it might be better to work out some payment arrangement than to start a court action to try to collect the money.

Managing Your Cash Outflows

Cash inflow, or revenue, is one side of managing your cash flow; obviously, cash outflow, or disbursements, is the other. The disbursement part of your cash flow forecast can serve as a budget for you. If you have made provision for normal expenses, try to keep your expenses below the amounts you have designated. This will allow you to control the cash flowing out of your business as part of your cash flow management.

Need More Money?

There are two basic ways of increasing revenue. The first approach is to provide more work to more customers. This will involve growing your business, as outlined in Part 3.



Hot Tip

Before starting any court action, ask yourself how much good money (your working capital) you are prepared to throw after bad (the bad debt). Unless it is a very large amount of money that you are reasonably sure of collecting, you are usually better to swallow the loss and get on with running your business. Treat the bad debt as an expensive lesson and do whatever it takes to prevent a similar situation from happening in the future.



Entrepreneur Beware

For many businesses, the knee-jerk reaction to a reduction in cash flow is to cut spending. This invariably leads to a budget review in which each and every expense is carefully examined, with a view to significant reduction, if not total elimination, of the expense. Following the worldwide restructuring that took place in the early '90s, virtually all large organizations slashed budgets and cut expenses. Realistically, though, cutting costs is only part of the cash management equation. The other part—in fact, the more significant part—is increasing revenue.



Entrepreneur Beware

Do not increase your prices just because you need or want more money. Any increase in prices will inevitably result in some loss of business. Before raising prices, assess how much you are likely to lose as a result. Make sure that any price increases are more than sufficient to offset any losses that you will experience.



Building Block

Without a line of credit, you will have to use personal funds, or those of your family, to pay bills during cash crunches. Just treat the injections as temporary contributions to capital so that you can repay them when your cash flow permits. If you have the personal resources to cover cash shortages in your business, you can save the interest charged when using a line of credit.

The second approach is to increase what you charge customers for your goods and services. Perhaps you are charging less than the competition and, by simply raising your prices to what the competition charges, you can generate more money. Or maybe the quality of your goods or services has increased and you have not increased your prices to reflect this.

Sooner or later, all businesses need cash transfusions. As in all aspects of business management, it is better to plan for this contingency before it arises.

As noted in Chapter 8, the best approach is to arrange for a line of credit with your bank. By applying for one before you need it, it is more likely to be approved. Essentially, a line of credit is like a limit on a credit card. As you need money you draw against the credit, and when you have money you repay the funds. No interest is charged unless and until funds are actually used.

Very often, cash flow problems indicate problems that cannot be removed by the infusion of more money. Perhaps the cash flow problem means that it's time to look for a merger partner, as discussed in Chapter 24. Or maybe it's time to plan to get out of business, in which case Chapter 28 will help. Regardless of whether you perceive cash flow problems to be temporary or more permanent, they should be taken seriously and managed properly. Your business simply cannot survive without cash flow.

The Least You Need to Know

- Forecasting cash flow is just as important once your business is established as it is during the startup phase.
- Managing cash flow includes making sure your customers pay you on a timely basis.
- Although cutting costs is one way of dealing with a cash crunch, it is usually better to generate more revenue, either by providing more goods and services to more customers or by increasing what you charge your customers.



Transform Your Business to Cope with a Changing World

In This Chapter

- Find out how businesses must change in our changing world
- Internal and external changes
- Questions to ask yourself and your customers about the future
- Will the changes be right for you?

Our world today is changing and changing quickly. Globalization is one major factor that triggers changes. Our world has become a global village. Technological advances have forced us to change the way we run our businesses. Some of these changes are beyond our control. The best way of dealing with these changes is to respond in a way that will either help us achieve our goals or, at the very least, minimize the disruption we experience as we pursue our goals. A forward-focused strategic plan that looks at meeting your customers' future needs will help you to successfully manage change.

To identify what your customers will need in the future, ask them. You can also involve your employees in identifying these future needs and in transforming your business into a future-focused organization.

When Everything Around You Is Changing

Unless you have been living the life of a hermit for the past decade, you have experienced dramatic changes in the way you do your work. As we have heard so often, as a developed society we are currently experiencing more changes at a greater rate than at



Building Block

Globalization is one major trend that is triggering changes in our lives. Today, money has no boundaries. It can be moved from one country to another and then to a third as quickly as commands can be entered into a computer. As a result, investors can place their funds wherever the return will be the greatest, regardless of where they, their money, or the investment opportunity is located.



Entrepreneur Beware

Don't try to reject globalization and hide from change. The changes will become obstacles and draw your attention and energy away from the challenge of striving to achieve your goals. If you prefer not to have to deal with changes, perhaps it is time for you to start planning to get out of your business. Many people have chosen this as their best response to change. If you think it might be the right approach for you, go to Chapter 28 to learn about planning your exit.

any other point in history. No area of our lives is immune to change. In our personal and family lives, we have felt the effects of change. Our lifestyles barely resemble those of our parents, and those of our children will differ from ours.

Disruptive as the changes to our personal lives may be, they seem insignificant compared to the sea of changes that are happening in our businesses. Changes in business are like the Canadian weather: If you don't like what's happening, wait five minutes; it will likely change.

Because of globalization, money and tangible goods—such as natural resources, manufactured products, and agricultural products—can be easily moved from country to country, usually unimpeded by national borders. In today's world of international trade, it is not uncommon for the natural resources of one country to be exported to another for processing into goods, which are in turn shipped to other countries for sale to the end user. This international production and marketing process is possible thanks to the growth of multinational trading blocks, which have reduced or eliminated many trade barriers, and also to the efficient air transportation that we enjoy today. In the international marketplace, it is now possible to obtain items from across the world as easily as from across town.

The availability of out-of-season agricultural products illustrates the change in the international marketplace. Barring unforeseen natural disasters or crop failures, we can purchase traditional summer produce such as tomatoes, lettuce, or corn at any time of the year. When we see a news item about a crop failure in California or a hailstorm in Florida, we can expect a price increase on that product at the store within the next few days.

Whether we like it or not, we are in fact interconnected with other people with whom we share our world. What happens on the other side of the world—be it economic, health-related, social, or whatever—can and usually does ultimately affect us. McLuhan was right: Our world is like a global village.



Shop Talk

Butch Carter is the former head coach of the Toronto Raptors NBA basketball team. During the off-season, he reassumes active management of his own business of supplying small trees, bushes and other such nursery stock. Originally, his customers were primarily local gardeners who visited his greenhouse, made their selections, and took their purchases home. Faced with growing competition from large retailers, Butch transformed his business into an e-business instead of trying to compete with their lower prices. Using Web technology, he was able to promote and sell his nursery products to plant-lovers overseas and also in remote areas of our global village. Using overnight couriers, he can now deliver fresh garden stock to his customers, wherever they are.

Working in partnership with globalization, technological advances have also forced us to change the way we run our businesses. Realistically, it is difficult, if not impossible, to survive let alone succeed in today's world of business without using technology in one form or another. From the simplest of bookkeeping and word-processing applications to the most sophisticated Web-based business, technology plays, or should play, a critical role in business operations.

And if changes brought about by globalization and technological advances are not enough, today's customers and employees are more highly educated and demanding.

Faced with the challenge of doing business in a changing world, we must accept the reality of the situation and seek out opportunities in the changes around us. By accepting and even embracing changes, they can help us achieve our goals, ultimately bringing about our desired results.

When You Initiate Changes

Not all of the changes that we face come from outside. If you are the least bit entrepreneurial, you will be constantly initiating changes. Simply starting your own business triggers a series of changes. Similarly, the approaches to developing



Entrepreneur Beware

Not all of the changes that you initiate are driven by business considerations. Some are brought about in response to such considerations as changing health or personal needs or wants. Others are brought about by a change in family circumstances. Whether business driven or not, you should not make changes simply for the sake of making changes, but rather initiate changes to bring about a desired result.

new business, as outlined in Chapter 19, and all of the techniques for expanding your business, discussed in Part IV, will bring about changes in your business.



Shop Talk

At one time, I worked as a consultant with a major accounting firm. Among the differences between my accountant-colleagues and me was our approach to planning. My colleagues followed the traditional analytical approach of assembling masses of numbers and then trying to massage these numbers into trends, which presumably helped forecast what would happen in the future.

For me, this was much like driving an automobile while focusing on the rear-view mirror. I believed that this approach—continuing to do what had always been done—would result in few significant changes. In fact, it did little more than continue to generate similar results to those generated in the past. In all fairness, it is an approach that works well in a stable and slowly changing world, the kind of world that we experienced twenty to thirty years ago. Unfortunately, today's world is not stable, nor does it change slowly.

Watch Where You Want To Go, Not Where You've Been

If you would like to successfully manage changes, however initiated, concentrate on the goals that you want to achieve instead of the changes themselves. Think about changes as something between your current situation and the results that you want to achieve.

When you are facing changes over which you have no control, ask yourself, *How can these changes help me get to where I want to go?* Your answer to this question will suggest a strategy that will help you use the changes to achieve your goals.

If it turns out that instead of being helpful the changes are more like obstacles to your forward progress, your question becomes, *How can I minimize potential harm from these changes so that I can pursue my goal?* Using this approach, you are treating the changes as hurdles to be jumped or detours to be taken as you continue your pursuit of your goals.

When it comes to making changes yourself, your question becomes, *What changes do I have to make to get me to where I want to go?* This approach puts you clearly in the driver's seat, doing whatever it takes to achieve your goals.

According to Terence T. Burton and John W. Moran, authors of *The Future Focused Organization* (Prentice Hall Inc., 1995) “a future organization is one that clearly understands its three most important attributes, the past, present and future.” They go on to explain, “The past provides the foundation for growth. The past focussed the organization on its purpose.... The focus needs to be reviewed on a regular basis to keep the organization fresh and focussed on its customers and their changing needs and culture.”

As for the present, it “develops the foundation for the future. We need to project into the future to determine what the shifting landscape might look like two to five years in the future...we develop the strategic plan based on the purpose we want to achieve in the next three to five years.



Building Block

Before focusing on the future, it is important to remember what business is all about—that is, selling something, as discussed in Chapter 3. Chapter 13 refined this principle by introducing the other side of selling: customers buying to meet their needs or wants. Part III addressed the issue of growing your business by continuing to meet your customers’ needs and wants. And Part IV discussed how you can expand your ability to satisfy your customers.

Never forget that your success depends upon your ability to satisfy your customers, both now and in the future.

We develop strategy to achieve our purpose and to delight our customers and not ourselves.”

So what about the future? “The future is where a future-focused organization’s fortune and continued existence lie and must be discovered.”

The basic message? To cope with a changing world, transform your business into a future-focused organization.



Hot Tip

A future-focused strategic plan will help keep the attention on the results you want to achieve. This gives you a reference by which you can respond to changes that are initiated from the world outside us and also manage the changes that you initiate yourself. When considering how to handle a change, wherever initiated, ask yourself, “How can I handle this to achieve my desired results?” This will focus your attention on bringing about the results that you choose, instead of trying to solve the problem of dealing with change isolated from what you would like to achieve.

So Where Do You Want to Go?

In the simplest of terms, you will want to go where your customers will be. In the future, you will want to satisfy your customers as well as you do today and as you did in the past. Does this mean your customers will be looking for the same things in the future that they are now looking for? To use a classic lawyer’s answer, yes, no, and maybe.

Yes, they will be wanting you to continue to provide goods or services. It will be important to maintain the same level of quality. In fact, in a more global, increasingly competitive marketplace, quality issues can be expected to become even more important than they are now. The quality-service considerations contained in Chapter 15 will continue to be critical elements in how you run your business.



Shop Talk

According to the Grolier Encyclopedia, the first bicycle was developed in France in the 1790s. During the Industrial Revolution, the bicycle became a popular choice for personal transportation. Old photographs show delivery boys and police officers alike doing their rounds, mounted on bicycles.

With the coming of the automobile, the use of bicycles as transportation fell from favour. Deliveries were made by motorized vehicles, police officers moved into their cruisers. The bicycle appeared then to be only for children and adolescents. Few adults chose bikes as their primary mode of transportation.

Today, motorists and pedestrians keep a wary eye for speeding bicycle couriers on city streets. And few police forces are without bicycle-mounted officers. (One of my favourite images of bicycles is a newspaper photo of a police officer holding her bike with one hand, and with the other, handing a ticket to the driver of a huge transport truck.)

No, they will not be looking for the same things in the future. Like you and every one else, your customers are living in a rapidly changing world. This means that their needs and wants are also shifting. How many of the goods and services that were commonplace ten to fifteen years ago are still available? To look at it from another perspective, many of the goods and services that we will need in the future have yet to make an appearance in the marketplace.

And maybe your customers will be looking for the same things. If you have experienced enough business cycles, you well know that what goes around comes around, a variation on the theme of everything old is new again. You just never know when and if your customers will be looking for something that they used to need or want.

You Can't Get There Alone

Unless you have the gift of prophecy, you are going to need some help in identifying where your customers are going to be in the future and what they will be looking for. There are two logical places to get help: from your customers and from your employees.

Work with Your Customers

If you want to know what your customers will be looking for in the future, ask them. But don't be surprised if they don't know. Most of us are so busy with today's activities that we have yet to sort out what we will be doing at some point down the road. If your customers don't have a vision of where they will be and what they will need in the future—which is most likely the case—don't abandon your search for answers. By helping them clarify their vision of where they will be going, you will be helping yourself in a number of important ways.

First, you will start the process of obtaining the information that you need to keep your customers satisfied in the future. By helping your customers with the process, you will position yourself to look after your customers once future needs and wants have been identified. If you don't join your customers into looking into the future, you risk losing customers to competitors who have done a better job of anticipating your customers' future needs and wants.

Second, you will enhance your existing relationship with your customers. Unless your customers are blind to the future, they will appreciate your willingness to help them prepare for the future. Not only will this encourage them to continue to do business with you in the present; it will also encourage them to make referrals to you.

Third, the process will open the door to a meaningful exchange of information between you and your customers. The driving force behind the growth of e-businesses is the ability for individual businesses to quickly and efficiently exchange critical information with their customers and suppliers. By helping your customers look to the future, you are also opening the door to further exchanges of information that can only help you serve your customer better.

And finally, helping your customers look into the future will also enhance your efforts to distinguish yourself and your business, as discussed in Chapter 14.

Realistically, if you are trying to see into your customers' futures, you need their input. You simply cannot go there alone. In helping your customers visualize their futures, invite them to consider questions such as the following:

- What will your market look like?
- Who will be your biggest competitor? What competitive advantage will they have over you and vice versa?
- What strengths will you be able to offer your customers?
- Do you have the appropriate resources?

Do these questions seem familiar? They should: They are variations of questions raised in connection with preparing your business plan. Use the same process that you used to develop your business plan as a model for looking into your customers' and your own future. Instead of focusing on the current situation as your customers and you see it,

consider how it might look three years down the road. Although this may not yield an accurate vision of the future, at the very least it will help you develop useful strategies to deal with the future as it unfolds.



Shop Talk

Frederick Winslow Taylor is considered the most influential business guru of the twentieth century. Taylor's ideas increased productivity so dramatically in so many industries for so many years that our prosperity today is unimaginable without him. He introduced the theory that led to the time-and-motion studies that helped increase productivity during the height of the Industrial Age.

Taylor did not think much of the workers of his time. He is reported to have said, "Now one of the first requirements for a man who is fit to handle pig iron as a regular occupation is that he shall be so stupid and so phlegmatic that he more nearly resemble in his mental makeup the ox than other type."

Involve Employees

Brawny and brainless oxen have no place in today's knowledge-based economy. On average, today's workers are more highly educated and trained than workers at any other point in history. They represent a vast, largely untapped pool of resources for thoughtful managers.

What better opportunity could there be to actively involve your employees in your business operations than that of helping develop your focus on the future? And what better place to start than helping to identify your customers' needs and wants. Certainly you will need your employees to help you look after your customers in the future. It only makes sense to involve them in identifying your customers' future needs.

But don't stop there. In the future, your employees will continue to need your business as much as it needs them. Why not involve them in helping you transform your business to help cope with our changing world?

The Least You Need to Know

- The best approach to managing changes beyond your control is to manage your response.
- The changes that you initiate yourself should help you bring about your desired results.
- A future-focused strategic plan will help you manage changes.
- Your continued success depends upon your ability to keep your customers satisfied in the future.
- To identify what your customers will be looking for in the future, ask them and ask your employees.



You'll Need a Plan to Get Out of Your Business

In This Chapter

- ▶ How to plan your exit from the business
- ▶ Choosing a successor from family, employees, or third parties
- ▶ What to do with the assets if you wind up your business

Like all good things, sooner or later running your own business will end. Instead of leaving the decision to your executors—something that they might be unwilling or unqualified to do—it is usually better for everyone if you plan who will succeed you in running your business.

There are three basic options in choosing your successor: family, employees, and third parties. Each option has advantages and disadvantages. If you cannot locate a successor, your only option will be to wind up the business and sell or otherwise dispose of assets individually.

Planning an Exit?

By now you will have noticed the important role that planning plays in running your own business. Planning is critical, whether you are starting your business, growing it, expanding it, or keeping it going. Not surprisingly, planning is also crucial when the time comes for you to get out of your business, or when someone else has to run it due to your bad health or even death.



Hot Tip

If you die while running your business, the business is treated as an asset, for which your executors will have responsibility. In most cases, the will gives them the requisite authority to continue to operate, sell as a going concern, or wind up and sell the assets. If you do not already have a will, have your lawyer prepare one as soon as possible. Make sure that your new will, or your existing will if there is one, includes authority for your executors to deal with your business.

In your will, you do two main things. First, you appoint one or more executors to look after your assets after your death. And second, you tell these executors what to do with your assets when the time comes.

Through your will, your executors have the authority to look after your business. This does not necessarily mean that they know what to do with it. If you wish, your will can include instructions on how your business or specific assets should be handled after your death. A better approach would be to prepare a detailed succession plan, which your executors would be instructed to implement.

A properly prepared succession plan benefits everyone who has an interest in your business. If the business is to be sold as a going concern, actual or potential purchasers are identified. This reassures employees and customers that there is some likelihood that the business will continue. It also guides the executors in their duties and increases the likelihood of beneficiaries enjoying a maximum return on the sale of the business.

Provision can also be made for the continuation of the business in the event of mental or physical incapacity. These provisions can be included in living wills, an increasingly popular method of handling the estates of individuals becoming incapable of looking after their own affairs.

Although your will and your succession plan may be similar, there is one important difference between the two. When you make a will, you are not physically present to see how effectively or ineffectively your wishes are honoured and your instructions followed. On the other hand, unless your succession plan is triggered by your death or mental incapacity, you will observe its implementation.

If your plan was well prepared and is well executed, this could be a source of joy. We all like to see our plans successfully achieve the goals that we had anticipated. There is a real sense of pride in seeing someone carry on something that we have started.

However, if your plan was not well prepared or is not well executed, it could be difficult for you to stand by and watch things unfold. Few of us can idly stand by and watch others do poorly what we have loved doing well. This is especially true if they are now running our businesses, in which we have made such an emotional investment, differently than we would have.

Preparing a succession plan is a double-edged sword. If a succession plan is well prepared, it facilitates an orderly transfer of the operation of your business for the benefit of you and your customers. However, if it is not well prepared, it can cause potential difficulties for you, the new owner, and your former customers. Obviously, succession planning must be undertaken with extreme care and caution.

Choosing Your Successors

You, and your executors, have three options in choosing who will succeed you in running your business: family, employees, or third parties. The advantages and disadvantages of each of these choices are set out below. A fourth option is to wind up your business by liquidating or otherwise disposing of your assets and discharging outstanding obligations. The relative advantages and disadvantages of this option are also set out below.

If you choose to sell your business to pursue other activities, such as retirement, you will be able to have control over who will succeed you in running your business. Normally, when a business is sold as a going concern, the vendor remains active in the business for a predetermined period of time. This serves two purposes. First, it allows the new owner to learn how to run the business. Second, it gives some reassurance to the customers that they will continue to be looked after, notwithstanding the sale.

For more information on all aspects of selling your business, see *The Complete Idiot's Guide® to Buying and Selling a Business for Canadians*.

The Family Business

The most obvious place to look for people to succeed you in your business is within your family. Presumably, your family will understand



Entrepreneur Beware

It can be difficult to resist getting involved with the business you have sold. Unless the terms of the transfer allow you to remain or consult, you have no legal right to continue your involvement. Regardless of how much you want to help, the new owner is under no obligation to accept your advice and suggestions. Having your help rejected can lead to feelings of powerlessness in a situation in which you were formerly all powerful—a major stress producer if ever there was one. Further, if the new owner still owes you money, your interference could be so annoying that you might jeopardize getting paid.



Hot Tip

When negotiating the sale of your business, regardless of the purchaser, be sure to clarify the nature of your continued involvement in the business, including what you will do, how long you will do it, and how much you will be paid for doing it. Unless otherwise agreed, after-sale services should not be provided by you on a complimentary basis or as part of the sale price.



Entrepreneur Beware

As attractive as the family option may appear, it does not work for all families. In many families, children have little or no interest in running the business. It is unreasonable to expect these people to continue to operate it. And although one or more family members might have some interest, they might not have the requisite competence. Business history is rich with examples of family businesses being poorly managed by second and third generations of family members.



Building Block

If you want a family member to continue your business, it is best to involve your designated successor in the business long before you expect to pass it on. Make sure that they experience all aspects of running the business, from the dull and boring to the exciting. Involve them with planning, record keeping, dealing with suppliers and your banker, serving customers, and even cleaning up. This will give them the opportunity of seeing for themselves what is involved in running the business while you assess their interest and their overall competence.

and appreciate your work in starting and running the business. If you are lucky, they might even understand the dynamics of running the business and be interested enough to continue to operate it. Even if they have not actively participated in running it, with proper instruction from you, interested family members can probably learn what is involved in operating the business.

It may also be possible to complete the sale without the purchaser having to produce a significant amount of money (this might be especially necessary if it is handed over to a son or daughter). Instead of actually selling the business, you give all or part of it to a family member as a pre-death inheritance.

It is also possible, perhaps even likely, that if a family member succeeds you in business, you will not receive fair market value for the sale. Family members might expect allowances or discounts that other potential purchasers would not expect.

Unless you and your family members are convinced that it is right for them to carry on the business, don't even think of them succeeding you. If, however, you all agree that having a family member take over will be successful, you can prepare your transition plan. Among other items, this plan will address purchase price and payment provisions, who does what and when, and what happens when and if someone defaults on the agreement. It is also a good idea for you and the purchaser to have separate lawyers to prepare and review the agreement. This can help prevent problems later on after the excitement of the sale is but a memory.

Employee Purchase

The next best place to look for your successors is with an employee purchase. They are familiar with the business and understand what is involved in looking after customers. This should facilitate a relatively easy transition to new owners running the show. Theoretically, as far as your customers go, there should be no difference after a change in ownership.

Bringing about an employee purchase is similar to arranging a transition to a family member. Make sure that the employee as prospective purchaser experiences all aspects of running the business. This will allow all parties to satisfy themselves that a sale to the employees is likely to be successful. As was advised with a family purchase, once there is agreement that the sale will work out well, prepare a transition plan that will allow you to phase out of the business while your employee takes over. If you know far enough in advance that an employee will ultimately purchase your business, you can start issuing shares to the employee as part of the compensation.



Entrepreneur Beware

Unfortunately, employees do not always make good owners. They might not have the money or access to money to purchase the business. Further, they might lack the managerial skills to run the business themselves.

Sale to a Third Party

If you do not have any family members or employees who might succeed you in your business, your only option—sale to a third party—might be your best one. Assuming that you can locate a qualified purchaser, you can pass your business on to an interested, qualified, and motivated individual. With fair market value being defined as the amount that a purchaser is willing to pay a seller, you will receive fair market value on the sale of your business. The ultimate selling price will be determined through negotiations between you and the prospective purchaser.

The major obstacle to selling to a third party is finding an interested and qualified purchaser. One of the major reasons for this difficulty is the unique and personal nature of small businesses. In many, if not most cases, customers patronize small businesses because they enjoy dealing with the owner. Once the owner leaves, they often choose to take their business elsewhere. (The lawyer who purchased my practice learned this very soon after I left). Unfortunately, we pay a price for our uniqueness and individuality.

If you are lucky, you can find your own purchaser. Let your network contacts know that you are interested in selling your business and allow them to help you in the search.



Entrepreneur Beware

Selling a business as a going concern is not like selling other assets such as real estate or office equipment. Realistically, there are few potential purchasers for specialized businesses such as professional practices (as I found out when I sold my law firm) and very personalized businesses such as graphic art and design. It often takes a very long time to locate interested, let alone, qualified purchasers (I learned this too).

If someone does locate a purchaser for you, consider paying this person some kind of a finder's fee for saving you untold hours of frustration.

You might also contact a realtor or business broker for help in locating potential purchasers. Although there will be a fee payable if a broker finds someone who ultimately purchases your business, the fee is money well spent. Again, it will save you many hours of frustration and fruitless searching.

Once you have located an interested and qualified purchaser, involve your lawyer and accountant to help with the sale negotiations. Legal and tax considerations of selling a business are such that you risk serious consequences if you undertake the process without professional assistance.

Winding Up Your Business

Not all businesses can be sold. If your business is not saleable, the only option is to wind it up by liquidating assets and discharging liabilities. There may be some positive aspects to this.

If the assets have little or no value, it should be relatively easy to dispose of them, either by giving them away or simply throwing them out. Be kind to our environment; donate your castoffs and recycle what you can.

It might also be possible that specific assets might have a higher value if sold alone instead of as part of a going concern. You might have some intellectual property, such as patents or trademarks, that other businesses might be interested in acquiring separately. Similarly, you could have a valuable customer base or location that other businesses might be willing to pay for. Just because you are going to sell your assets individually, it does not mean that none of them have any value. Check with your accountant or financial advisor. Who knows? Your assets might be worth more to other businesses than they are to you.



Entrepreneur Beware

When you sell your business assets individually, you are unlikely to recover anything for goodwill, which is that intangible asset that makes your business so valuable and enjoyable to you.

Although there is a very large and active market for used business equipment, it is unlikely that you can tap into this market. Used furniture and equipment dealers usually make bulk purchases from large organizations. Seldom are they interested in the furniture and equipment used by small businesses. Although you love your special desk and favourite chair, few purchasers will be willing to pay you what you think it's worth.

The first step in winding up your business is to check with your professional advisors to determine what legal and tax implications will arise from selling your assets. Once you have clarified what you must and must not do, arrange for appraisals so that

you will know what the assets are worth if you find a qualified purchaser. These appraisals will be a starting point in your sale negotiations.

It is unlikely that you can find anyone—apart from friendly auctioneers—who will sell your assets on your behalf. You will be on your own to find a purchaser. Follow the usual approach: Let your network contacts know that you are selling your equipment and advertise however and wherever you see fit. If you have tried all of these suggestions and still have unsold equipment and furniture, try giving it to a charity. At least you will have disposed of it and you might even get a receipt for a charitable donation.

Don't Just Sit There, Do Something

Just because you belong to a health club it does not necessarily mean that you are in good physical condition. Similarly, just because you have now finished this book about small business, it does not necessarily mean that you will successfully run your own business.

Are You Ready to Start Your Own Business?

If this describes your position regarding small business, go back to the beginning of this book and start working through Parts I, II, and III. Your challenge is to put together useful business and marketing plans to get your business up and running.

Are You Ready for More Business for Your Existing Business?

If, like all small businesses, you are looking for new business, go back to Part III. Your first challenge is to figure out how to supply more existing goods and services to your existing customers. Your next challenge will be to supply existing goods and services to new customers and then move on to developing new goods and services to provide to your existing customers. You have a lot of work to do; but take heart, it will pay off.

But don't just focus on developing new business. Make sure that you can also look after the business that you develop. Check Part 4 to know what's involved in expanding your business when the time comes.



Hot Tip

Regardless of what action you are going to take regarding your business, make sure that you and your cash flow stay healthy. Reread Chapters 25 and 26 whenever you or your cash flow starts to sag. Without your good health and a healthy cash flow, nothing else much matters.



Shop Talk

Experience is a wonderful thing. The best part about it is how it improves when it is shared with others. We all learn from other people's experiences. That is why I have included the stories.

I have enjoyed telling my stories and those of other people. I hope that they have helped you to understand some of the issues discussed in this book. And now it's your turn. Tell me about your successes. What have you done well? What have you done that you think will help others? Send your stories to me c/o Prentice Hall Canada. Who knows? Maybe your story will work its way into another book and help someone else succeed.

Are You Ready to Expand Your Business?

Don't automatically think about hiring an employee. There are other alternatives that might be more suited to you and your business. Check out Part IV to find the approach that is right for you.

Are You Ready to Get Out of Your Business and Move On?

It's time to start working on your succession plan. Do not pass go, head directly to the beginning of Chapter 28 to begin to plan your exit.

It has been a pleasure for me to put together this book. I hope it helps you to enjoy, and succeed in, running your own business.

The Least You Need to Know

- To ensure the least disruption for everyone concerned, plan who is going to succeed you in business and how this plan will be implemented.
- Your successors could be family members, employees, or third parties.
- If you can't sell your business as a going concern, the only option will be to wind up the business by liquidating the assets and paying the liabilities.

Glossary of Terms

Balance sheet A financial statement that shows the assets, liabilities, and owner's equity of a business at a specific point in time.

Business plan A written plan that sets out what goals the business hopes to achieve and what strategies will be followed to achieve these goals.

Cash flow forecast A statement that forecasts cash flowing into and out of a business.

Corporation Legal entity created by filing appropriate documents with a provincial or territorial government. Shares, which represent ownership of the corporation, are issued. Shareholders have the right to receive profits of the corporation through dividends; shareholders' liability is limited to the purchase price of the shares. Corporations are also referred to as "companies" and "limited companies."

Demand loan A loan that is repayable on demand.

Entrepreneur An individual who organizes and manages a business, attempting to make a profit but taking the risk of a loss.

Family business A business that is owned and/or operated by members of the same family.

Franchise The right to use the trademarks and systems and to promote and market either or both of a franchisor's goods and services.

Franchisee The individual or organization that pays the franchisor for the franchise and the right to use the system.

Franchisor The company that owns and controls the franchise system, and grants the licence to operate the franchise according to a specific method and with products or services that have been developed by the franchisor.

Joint venture An arrangement in which two or more independent businesses work together on a single project, with each business sharing the profits or losses in a predetermined manner.

Line of credit Pre-authorized credit, which the borrower can use and repay without seeking approval of the lender.

Marketing Whatever a business owner or operator does to obtain more business.

Marketing plan A written plan that sets out the marketing goals a business hopes to achieve and the strategies that will be followed to achieve these goals.

Merger A permanent arrangement in which two or more businesses combine their resources to form a new business.

Networking The practice of maintaining contact with a broad range of individuals to exchange mutually beneficial information.

Mortgage A debt for a set term or period of time that is secured by real estate. The debt is usually repayable over the term of the mortgage.

Partnership Business that is owned by two or more individuals or corporations. Unless otherwise agreed, all partners are personally liable for all partnership debts.

Profit and loss statement Financial statement that shows the revenue and expenses of a business for a set period of time, such as one month, three months, or a full year. If revenue exceed expenses the business has realized a profit; if expenses exceed revenue, the business has suffered a loss.

Small business A business with fewer than twenty employees.

Sole proprietor Single owner of a business. In a sole proprietorship, the proprietor owns all of the assets and is personally liable for all debts of the business.

Sources and uses of funds statement A statement that shows where the money is coming from to start a business (source) and what these funds are purchasing (uses).

Succession plan A plan that identifies who will succeed the owner of the business in the ownership and operation of the business. The plan will also outline how the change in ownership and operation will be achieved.

Term loan A loan for a set term or period of time and secured by specific assets. The loan is usually repayable in installments over the term.

Government Information and Contacts: Registration and Employment Standards Requirements

ALBERTA

Business registration

Complete a Declaration of Trade Name form, offered by the Corporate Registries office.

In Calgary: (403) 297-3442

In Edmonton: (403) 427-2311

Outside Edmonton and Calgary, toll free: (800) 310-0000

Incorporation

To incorporate a company in Alberta, contact the Corporate Registries 24-hour telephone system.

In Calgary: (403) 297-3442

In Edmonton: (403) 427-2311

Outside Edmonton and Calgary: (403) 310-0000

Requirements for termination of employees with notice

Employment period	Notice required
less than three months	0
more than 3 months, but less than 2 years	1 week
more than 2 years, but less than 4 years	2 weeks
more than 4 years, but less than 6 years	4 weeks
more than 6 years, but less than 8 years	5 weeks
more than 8 years, but less than 10 years	6 weeks
more than 10 years	8 weeks

Information about provincial government regulations and services

The Business Link

Business Service Centre
10237 - 104 Street, Suite 100
Edmonton, Alberta T5J 1B1
Telephone: (403) 422-7722

Toll free: (800) 272-9675
Fax: (403) 422-0055
Web site: www.cbcs.org/alberta/index.html
E-mail: buslink@cbcs.ic.gc.ca

BRITISH COLUMBIA

Business registration

To register a proprietorship or a partnership you will need to obtain

1. Name Approval Request form
2. Declaration for Partnership and Business Name form

To obtain a copy of the above forms as well as a recent fee schedule, contact

Registrar of Companies

Attention: Firms Registration
940 Blanshard Street, 2nd Floor
Victoria, British Columbia V8W 3E6
Telephone: (250) 356-2893
Fax: (250) 356-1428
In Vancouver: (604) 775-1041

Incorporation

Self-Incorporation Kit, available for purchase from the Canada/British Columbia Business Service Centre or from most commercial stationery stores, will guide you through the incorporation process. Once completed, incorporation forms will be filed with the Registrar of Companies. For more information contact your local government agent or

Registrar of Companies

940 Blanshard Street, 2nd Floor
 Victoria, British Columbia V8W 3E6
 Telephone: (250) 387-7848
 In Greater Vancouver: (604) 775-1041
 Fax: (250) 356-1428

Requirements for termination of employees with notice

Employment period	Notice required
less than three months	0
more than 3 months' consecutive employment	1 week
more than 12 consecutive months, but less than 3 years	2 weeks
more than 3 consecutive years of employment, to an amount equal to 3 weeks' wages plus wages	3 weeks, plus one additional week's wages for each additional year of employment, to a maximum of 8 weeks

Information about provincial government regulations and services

Canada/British Columbia Business Service Centre

601 West Cordova Street
 Vancouver, British Columbia V6B 1G1
 Telephone: (614) 775-5525
 Toll free: (800) 667-2272
 Fax: (614) 775-5520
 Web site: www.sb.gov.bc.ca/small-bus/sbhome.html

MANITOBA

Business registration

Corporation and Business Names Branch

405 Broadway, 10th Floor
 Winnipeg, Manitoba R3C 3L6
 Telephone: (204) 945-2500
 Toll free in Manitoba: (800) 282-8069

Incorporation

**Manitoba Consumer and Corporate Affairs Corporation
 and Business Names**

405 Broadway, 10th Floor
 Winnipeg, Manitoba R3C 3L6
 Telephone: (204) 945-2500

Requirements for termination of employees with notice

Employment period	Notice required
less than 30 calendar days of employment	0
More than 30 calendar days	Notice that equals at least one full pay period

Information about provincial government regulations and services

Canada/Manitoba Business Service Centre

330 Portage Avenue, 8th Floor

P.O. Box 2609

Winnipeg, Manitoba R3C 4B3

Telephone: (204) 983-2272

Toll free: (800) 665-2019

Fax: (204) 983-3852

Web site: cbsc.ic.gc.ca

E-mail: manitoba@cbsc.ic.gc.ca

NEW BRUNSWICK

Business registration

Register your business with the Corporate Affairs Branch of the Department of Justice.

Incorporation

Contact the Corporate Affairs Branch of the provincial Department of Justice or the Business Service Centre to obtain the kits required to incorporate your corporation and to select an acceptable name.

Department of Justice

Corporate Affairs Branch

Centennial Building, Room 475, 4th Floor

670 King Street

P.O. Box 6000

Fredericton, New Brunswick E3B 5H1

Telephone: (506) 453-2703

Requirements for termination of employees with notice

Employment period	Notice required
more than six continuous months, but less than 5 years	1 week
continuous period of 5 years or more	4 weeks' written notice

Information about provincial government regulations and services

Canada/New Brunswick Business Service Centre

570 Queen Street

Fredericton, New Brunswick E3B 6Z6

Telephone: (506) 444-6140

Toll free: (800) 668-1010

Fax: (506) 444-6172

Web site: www.cbcs.org/nb/index.html

E-mail: cbcsnb@cbcs.ic.gc.ca

NEWFOUNDLAND

Business registration

Newfoundland and Labrador Tax Services

St. John's District Office

Sir Humphrey Gilbert Building, 2nd Floor

165 Duckworth Street

P.O. Box 12075

St. John's, Newfoundland A1B 4R5

Telephone: (709) 772-2639

Toll free: (800) 959-5525

Fax: (709) 754-5928

Incorporation

The proposed name of the corporation must be cleared by the Registry of Companies prior to any other documents being presented. It costs \$10 to search a proposed name and \$10 to reserve a proposed name. After the corporate name has been approved by the Registry of Companies, it is necessary to obtain all of the application forms required under The Corporations Act of 1990. These forms are as follows:

Form 1—Articles of Incorporation

Form 3—Notice of Registered Office

Form 6—Notice of Directors

These forms must be completed in full and forwarded to the Registry of Companies along with the incorporation fee of \$25. Each year, every corporation must file an annual return and pay the filing fee of \$25. Nonprofit corporations are usually exempt from this fee but they also have to submit an annual return. Any corporation not filing on time faces a penalty fee and continued noncompliance may result in the company being dissolved under Section 341 of The Corporation Act.

Contact the Registry of Companies for fees and complete details.

Department of Government Services and Lands

Commercial Registrations Division

Registry of Deeds & Companies

Ground Floor, East Block

Confederation Building

P.O. Box 8700

St. John's, Newfoundland A1B 4J6

Telephone: (709) 729-3315/3316

Fax: (709) 729-0232

Requirements for termination of employees with notice

Employment period	Notice required
less than 1 month	0
1 month to 2 years	1 week
more than 2 years	2 weeks

Information about provincial government regulations and services

Canada Business Service Centre

90 O'Leary Avenue

P.O. Box 8687

St. John's, Newfoundland A1B 3T1

Telephone: (709) 772-6022

Toll free: (800) 668-1010

Fax: (709) 772-6090

Web site: www.cbcs.org/nfld/index.html

E-mail: St.Johns@cbcs.ic.gc.ca

NORTHWEST TERRITORIES

Business registration

There are two steps involved in registering an incorporated business: Have the business name approved; and file a declaration. There is a separate fee for each step. For a current fee schedule, contact the Registrar of Companies, or your local government agent or Chamber of Commerce Business Information Centre.

Registrar of Companies

Department of Justice

Government of the NWT

P.O. Box 1320

Yellowknife, Northwest Territories X1A 2L9

Telephone: (403) 873-7490

Fax: (403) 873-0243

Business licence

If the business is to be established within a community that has hamlet, village, town, or city status, then you must receive a business licence from the local municipal office. The Secretary-Manager or City Clerk will be able to assist you in most licensing and permit considerations. If you intend to establish your business in a community with settlement status or you wish to operate outside a community but within the N\W\RT then you must receive a business licence from the Consumer and Corporate Affairs Division

Department of Municipal and Community Affairs

Government of the NWT

P.O. Box 1320

Yellowknife, Northwest Territories X1A 2L9

Telephone: (403) 920-8054

Fax (403) 873-0272

Incorporation

A corporation is formed by filing the following documents:

Articles of Incorporation (Form 1)—1 copy

Notice of Registered Office (Form 2)—2 copies

Notice of Directors (Form 4)—2 copies

Requirements for termination of employees with notice

Employment period	Notice required
Less than 90 days	0
90 days to 3 years	2 weeks
More than 3 years	1 additional week for each additional year to a maximum of 8 weeks

Information about provincial government regulations and services

Canada/Northwest Territories Business Service Centre

P.O. Box 1320

Scotia Centre, 8th Floor

Yellowknife, Northwest Territories X1A 2L9

Telephone: (867) 873-7958

Toll free: (800) 661-0599

Fax: (867) 873-0575

Web site: www.cbsc.org/nwt/index.html

E-mail: yel@cbsc.ic.gc.ca

NOVA SCOTIA

Business registration

All businesses operating in Nova Scotia must be registered with the Registry of Joint Stock Companies, Department of Business and Consumer Affairs. This can be done at the access office near you, by mail, or at the registry in Halifax.

Phone (902) 424-7770, or Young Entrepreneurs ConneXion line (800) 833-1829, to obtain a copy of the search form.

Incorporation

After you choose a business name, you must reserve it. Contact the following office by phone, mail, or in person.

Telephone: (800) 225-8227 (VISA only)

Mail:

Registry of Joint Stock Companies

P.O. Box 1529

Halifax, Nova Scotia B3J 2Y1

In person:

Maritime Centre

1505 Barrington Street, 9th Floor

Halifax, Nova Scotia

OR: visit an Access Nova Scotia Centre

After your name is reserved, file appropriate incorporation documents with the Registry of Joint Stock.

Requirements for termination of employees with notice

Employment period	Notice required
less than three months	0
3 months to 2 years	1 week
2 years to 5 years	2 weeks
5 years to 10 years	4 weeks
more than 10 years	8 weeks

Information about provincial government regulations and services

Canada/Nova Scotia Business Service Centre

1575 Brunswick Street

Halifax, Nova Scotia B3J 2G1

Telephone: (902) 426-8604

Toll free: (800) 668-1010

Fax: (902) 426-6530

Web site: www.cbcs.org/ns/index.html

E-mail: halifax@cbcs.ic.gc.ca

NUNAVUT

Name registration

For information, contact the Canada-Nunavut Business Service Centre.

Incorporation

For information, contact the Canada-Nunavut Business Service Centre.

Requirements for termination of employees with notice

Employment period	Notice required
less than 90 days	0
90 days to 3 years	2 weeks
More than 3 years	1 additional week for each additional year to a maximum of 8 weeks

Information about provincial government regulations and services

Canada/Nunavut Business Service Centre

1088 Noble House,
Iqaluit, Nunavut X0A 0H0
Telephone: (867) 979-8613
Nunavut only toll free: (877) 499-5199

Fax: (867) 979-6823
Toll-free fax: (877) 499-5299
Web site: www.cbcs.org/nunavut
E-mail: nunavut.cbcs@nu.sympatico.ca

ONTARIO

Business registration

Mail:

393 University Avenue, 2nd Floor
Toronto, Ontario M5G 2M2
Telephone: (416) 314-8880
Toll free: (800) 361-3223
Fax: (416) 314-0102

In person:

375 University Avenue, 2nd Floor
Toronto, Ontario M5G 2M2
Telephone: (416) 314-8880
Toll free: (800) 361-3223
Fax: (416) 314-0102

Ontario Business Connects are computer workstations located across the province to apply for Business Name Registration, Retail Sales Tax, Vendor's Permit, Employer Health Tax (including self-employed), and Workers' Compensation. To check for a location nearest you, call Ontario Business Connects Information helpline at (416) 314-9151, toll free (800) 565-1921.

Incorporation

Persons wishing to incorporate a business must file articles of incorporation with

Corporate Services Section

Companies Branch
Ministry of Consumer and Commercial Relations
393 University Avenue, 2nd Floor
Toronto, Ontario M7A 2H6
Telephone: (416) 314-0096

Articles of Incorporation may also be delivered to the Land Registry offices in the following municipalities:

Barrie, Oshawa, Sudbury, Hamilton, Ottawa, Thunder Bay, Kingston, Peterborough, Welland, Kitchener, Sarnia, Windsor, London, and Sault Ste. Marie.

Addresses can be found in the blue pages of your telephone directory.

Requirements for termination of employees with notice

Employment period	Notice required
less than three months	0
more than 3 months, but less than 1 year	1 week
more than 1 year, but less than 3 years	2 weeks
more than 3 years, but less than 4 years	3 weeks
more than 4 years, but less than 5 years	4 weeks
more than 5 years, but less than 6 years	5 weeks
more than 6 years, but less than 7 years	6 weeks
more than 7 years, but less than 8 years	7 weeks
more than 8 years	8 weeks

Information about provincial government regulations and services

Canada/Ontario Business Call Centre

Toronto, Ontario M5V 3E5

Telephone: (416) 954-INFO (4636)

Toll free: (800) 567-2345

Fax: (416) 954-8597

Web site: www.cbcs.org/ontario/index.html

E-mail: cobc@cbcs.ic.gc.ca

PRINCE EDWARD ISLAND

Business registration

In order to register the business name, the Consumer, Corporate and Insurance Services Division must perform a search to ensure that the business name is not already in use. This name is valid for three years.

Incorporation

Articles of Incorporation with the appropriate fee are to be filed with

Director

Consumer, Corporate and Insurance Services Division

Shaw Building

95 Rochford Street, 4th Floor

Charlottetown, Prince Edward Island C1A 7N8

Phone: (902) 386-4550

Requirements for termination of employees with notice

Employment period	Notice required
less than 6 months	0
6 months to 5 years	2 weeks
more than 5 years	4 weeks

Information about provincial government regulations and services

Canada/Prince Edward Island Business Service Centre

75 Fitzroy Street
 P.O. Box 40
 Charlottetown, Prince Edward Island C1A 7K2
 Telephone: (902) 368-0771
 Toll free: (800) 668-1010
 Fax: (902) 566-7377
 Web site: www.cbcs.org/pei/index.html
 E-mail: pei@cbcs.ic.gc.ca

QUEBEC

Business registration

File a declaration of registration with the clerk of the Superior Court at the courthouse. This declaration is valid for the province of Quebec.

If you are registering a partnership, you must register the same way as a person operating alone, and renew the registration whenever a new partner joins the firm.

Corporate Name Services

Protonotary's Office

Montreal District:
 1 Notre-Dame Street, Room 3150
 Montreal, Quebec H2Y 1B6
 Telephone: (514) 393-2106

Quebec City:
 Court House
 Corporate Name Services
 300, boul Jean Lesage
 Quebec, Quebec G1K 8K6
 Telephone: (418) 649-3410

(Other regions: contact your City Hall)

Note also that any business or person who employs at least one full-time or part-time worker must register with the Commission de la santé et de la sécurité du travail (CSST) and make contributions. The registration and the management of files can be done via their Web site at www.csst.qc.ca. For more information, contact (514) 873-3990 (or consult the blue pages for the telephone number in your region).

Incorporation

Federal Incorporation:

Anyone wishing to form a corporation under federal law must make an initial filing. The following documents (in duplicate) and fees are required:

Form 1 — Articles of Incorporation

Form 3 — Notice of Registered Office

Form 6 — Notice of Directors

filing fee of \$500 payable to the Receiver General for Canada

NUANS federal name search report (original) not more than 90 days old.

Note that a NUANS search is not required when making an initial filing for a corporation number only.

Forms and instructions may be obtained from Industry Canada at (514) 496-1797 or 888-237-3037.

Requirements for termination of employees with notice

Employment period	Notice required
less than 1 year of uninterrupted service	1 week
more than 1, but under 5 years of uninterrupted service	2 weeks
more than 5, but less than 10 years of uninterrupted service	4 weeks
more than 10 years of uninterrupted service	8 weeks

Information about provincial government regulations and services

Info entrepreneurs

5 Place Ville Marie

Niveau Plaza, Suite 12500, Plaza Level

Montreal, Quebec H3B 4Y2

Telephone: (514) 496 INFO (4636)

Toll free: (800) 322-INFO (4636)

Fax: (514) 496-5934

Web site: www.cbosc.org/quebec/index.html

E-mail: infoentrepreneurs@cbosc.ic.gc.ca

SASKATCHEWAN

Name Registration

To register your business in the province of Saskatchewan contact

Saskatchewan Justice

Director, Corporations Branch
1871 Smith Street
Regina, Saskatchewan S4P 3V7
Telephone: (306) 787-2962

Incorporation

Complete and file the following forms with the Corporations Branch.

A request for Name Search and Reservation

Articles of Incorporation

Notice of Registered Office and

Notice of Directors

Also send:

\$260 incorporation fee and the name search fee (either \$50 or \$60 depending on the type of search).

Requirements for termination of employees with notice

Employment period	Notice required
0 to 3 months	0
3 months to 1 year	1 week
1 year to 3 years	2 weeks
3 years to 5 years	4 weeks
5 years to 10 years	6 weeks
10 years and over	8 weeks

Information about provincial government regulations and services

Canada/Saskatchewan Business Service Centre

122 - 3rd Avenue North
Saskatoon, Saskatchewan S7K 2H6
Telephone: (306) 956-2323

Toll free: (800) 667-4374
Fax: (306) 956-2328
Web site: www.cbcs.org/sask/index.html
E-mail: saskatooncbcs@cbcs.ic.gc.ca

YUKON

Name registration

Yukon Justice
Department of Corporate Affairs
Andrew A. Philipsen Law Centre
2134 - 2nd Avenue, 3rd Floor
Whitehorse, Yukon T1A 2C6
Phone: (867) 667-5442
Fax: (867) 393-6251

Requirements for termination of employees with notice

Employment period	Notice required
0 to 6 months	0
6 months to 1 year	1 week
1 year to 3 years	2 weeks
3 years to 4 years	3 weeks
4 years to 5 years	4 weeks
5 years to 6 years	5 weeks
6 years to 7 years	6 weeks
7 years to 8 years	7 weeks
8 years and over	8 weeks

Information about provincial government regulations and services

Canada/Yukon Business Service Centre
201 - 208 Main Street
Whitehorse, Yukon Y1A 2A9
Telephone: (867) 663-6257
Toll free: (800) 661-0543
Fax: (867) 667-2001
Web site: www.cbcs.org/yukon/index.html
E-mail: yukon@cbcs.ic.gc.ca

Canadian Books for Small Business

- Bulldog: Spirit of the New Entrepreneur*, Ellie Rubin (Harper Collins)
- Canadian Business Handbook*, Vivienne Monty (CCH Canadian)
- The Canadian Small Business Survival Guide: How to Start and Operate Your Own Successful Business*, Benjamin Gallander (Hounslow)
- The Complete Idiot's Guide® to Being an Entrepreneur in Canada*, by Laurence Ginsberg (Alpha Books)
- The Complete Idiot's Guide® to Buying and Selling a Business for Canadians*, Larry Easto and Ed Paulson (Alpha Books)
- Don't Get Caught in Risky Business: Improving the Odds of Small Business Success*, Steve Bareham (McGraw-Hill Ryerson)
- Handbook for Canadian Consultants: Turning Your Expertise Into a Successful Small Business*, Donald M. Wood (McGraw-Hill Ryerson)
- How to Succeed in Your Home Business*, 2nd edition, by Larry Easto (Doubleday Canada)
- In the Company of Women: Canadian Businesswomen Talk About What It Takes to Create and Manage a Successful Business*, Katherine Gay (Harper Collins)
- Make Sure It's Deductible: Little-Known Tax Tips for Your Small Business*, Evelyn Jacks (McGraw-Hill Ryerson)
- The Mavericks: Lessons from the West's Winning Entrepreneurs*, Paul Grescoe (McGraw-Hill Ryerson)
- Networking Is More Than Doing Lunch: Big Networking Ideas for Your Small Business*, Larry Easto (McGraw-Hill Ryerson)

Raising Your Business: A Canadian Woman's Guide to Entrepreneurship, Joanne Thomas Yaccato and Paula Jubinville (Prentice Hall Canada)

Save Yourself From Financial Disaster, Sid Karmazyn (Abbeyfield Publishers)

Small Business Online: A Strategic Guide for Canadian Entrepreneurs, Jim Carroll and Rick Broadhead (Prentice Hall Canada)

Smart Marketing on a Small Budget: Create the Plan, Write the Copy, and Develop the Designs that Deliver Sales, S.j. Ross (McGraw-Hill Ryerson)

So You Think You Need a Lawyer, Maureen Fitzgerald (McGraw-Hill Ryerson)

So You Want to Buy a Franchise: Proven Steps to Successful Franchising in Canada, Doug Grey and Norman Friend (McGraw-Hill Ryerson)

Start Your Own Business, Be Your Own Boss: Your Road Map to Independence, Iain Williamson (Productive Publications)

What to Say When Your Customers Won't Pay, Judy Smith and Michael Shulman (McGraw-Hill Ryerson)

Where to Go When the Bank Says No: Financing Your Small Business in Canada, Gary Fitchett (McGraw-Hill Ryerson)

List compiled by Books for Business, Toronto

Index

- Abilities, 5
- Accounts receivable, 240
- Accountants, 35, 92, 94
 - Professional designation of, 94
- Accounting principles, 47
- Accounting software, 61
- Accounts payable, 240
- Accrual, 90
- Accuracy, 151
- Action programs, 125
- Actual cash value, 101
- Added value, 95, 151
- Administrative tasks, 31
- Advertising for candidates, 221
- Advertising, 168, 171, 178
- Agents, 25
- Agreements, 51, 201, 213
- All-Risks insurance, 101
- Answering services, 60
- Answering machines, 60
- Appraisals, 276
- Appraisers, 38
- Appropriate knowledge, 150
- Arbitration, 48
- Armor, Daniel, 184
- Asking for feedback, 156
- Assessment of current situation, 124
- Assets, 44, 78, 79, 101, 205, 243, 272, 276
 - Pooling of, 46
- Assets = Liabilities + Owner's Equity, 92
- Assurance, 132, 203
- Automobiles, 64
 - Business use of, 15
- Awards, 5

- Backing up information, 62
- Balance sheet, 92, 279
- Balancing work and family, 19
- Banking arrangements, 47
- Bankruptcy, 47
- Billing, 257
- Binding commitments, 218
- Board of directors, 49
- Boredom, 251
- Breaks, 250
- Brevity, 151
- Brochures, 61, 168
- Brokers, 104
- Budget, 86, 175
- Burton, Terence T., 265
- Business assets, 80, 142
- Business broker, 276
- Business cards, 61
- Business Development Bank of Canada, 80
- Business-hobbyists, 5
- Business line, 60

- Business name, 45, 46, 56, 243
 - Registering, 57
- Business opportunities, 71
- Business plan, 56, 67-76, 99, 267, 279
- Buying an active business, 36

- Call Answer, 59
- Call Waiting, 59
- Canada Business Service Centre, 64, 83, 223
- Canada Customs and Revenue Agency, 62, 94, 223, 257
- Canada Pension Plan, 223
- Capital, 47
- Capital gains exemptions, 49
- Caring, 204
- Cash, 90, 240
 - Disbursements, 89
 - On hand, 91
 - Receipts, 89
 - Shortages, 255
- Cash flow, 14, 86, 219, 255-260
 - forecast, 88, 279
- Cash inflow, 256
- Cash outflow, 259
- Cash value, 104
- Casualty insurance, 103
- Cellular phones, 60
- Change, 261-268
- Charitable donations, 277
- Chartered banks, 80
- Circulars, 168
- Client base, 112
- Clients, See Customers
- Clubs, 167, 170
- Collateral, 80
- Collating equipment, 63
- Collecting accounts, 258
- Collective agreement, 224
- Compensation, 210, 243
- Competition, 112
- Competitive advantage, 71
- Competitive analysis, 72
- Competitive edge, 145
- Competitors, 70, 230
- Computer log book, 62
- Computer viruses, 62
- Computers, 61
- Confidentiality, 17
- Consistency, 22
- Consumers, 28
- Contact management software, 61
- Contingency plan, 100
- Contracting out, 214
- Control, 17, 22, 210
- Controls, 125
- Corporation, 48, 279
- Correspondence, 61
- Cost-benefits analysis, 79

- Court judgements, 44
- Credit granting, 257
- Credit bureau report, 257
- Credit application, 257
- Credit cards, 82
- Credit history, 79, 80
- Customer base, 205, 236, 276
- Customer expectations, 130, 148
- Customer needs and wants, 181, 203
- Customer service, 6, 127-134, 223
- Customer surveys, 157, 163, 193
 - Samples, 158, 160
- Customers, 56, 70, 230, 241, 266
 - Attracting, 117
 - Organizations as, 28
 - Retaining, 117

- Davenport, Thomas H., 184
- Death, 47, 272
- Debts, 45
- Deductions, 45
- Defensive marketing, 112
- Delegating, 218
- Delinquent accounts, 257
- Deliver what you promise, 150
- Demand loan, 81, 279
- Deposit, 257
- Depreciated value, 47
- Depreciation, 47
- Desk jet printer, 63
- Direct mail, 169, 172
- Direct marketing, 204
- Disability insurance, 104
- Disbursements, 259
- Discharging liabilities, 276
- Discipline, 9
- Discussion groups, 62, 181, 182
- Disposable income, 70
- Disputes, 50
- Dissolution of partnership, See Partnership, dissolution of
- Distinguishing yourself from the competition, 136, 182
- Distributors, 24, 231
- Documentation, 82
- Doing what you love, 5, 30, 251
- Domestic issues, 18
- Don't promise what you can't deliver, 150
- Drucker, Peter, 111

- E-business (R)evolution, The, 184
- Education, 220
- E-mail, 62, 179
- Electric stapler, 63
- Electronic mail, See E-mail, 179
- Empathy, 133, 203
- Employee purchase, 274
- Employees, 147, 241, 266
- Employment agencies, 221

- Entrepreneur, 279
- Entrepreneurial assessment, 9
- Envelopes, 64
- Environmentalism, 64, 276
- Equipment, 240
- Equity financing, 229
- Errors and omissions insurance, 102
- Estate planning, 49
- Everything old is new again, 266
- Exchange of information, 267
- Executors, 272, 273
- Exercise, 248
- Existing customers, 128, 166, 188
- Exit strategies, 271-278
- Expanded capacity, 204
- Expansion, 218
- Expenses, 15, 49, 90
- Experience, 219
- External challenges, 182

- Family business, 273, 279
- Family members, 16
 - As employees, 16
 - As owners, 16
- Family income, 17, 18
- Family issues, 20
- Family money, 14, See Also Family Income
- Family support, 15
- Fax machines, 63
- Feasibility study, 99
- Feedback, 147, 163
- "Feedback loop," 163
- Financial statements, 85-96, 240
- Financing, 78-84
 - from family and friends, 79
- Finder's fee, 276
- Fiscal year, 47
- Five Basic Truths About Customer Service, 152
- Flexibility, 126
- Flyers, 168
- Focus on the future, 268
- Forecasting, 256
- Forecasting statements, 87
- Formal presentations, 167, 171
- Forward-looking statements, 86
- 4 P's of Marketing, 114
- Franchises, 24, 39-41, 279
 - Fees, 41
- Franchisee, 279
- Franchisor, 279
- Frustration, 251
- Full-time business, 7
- Fundraising, 113
- Furniture, 57
- Future Focused Organization, The, 265

- Global village, 180
- Globalization, 262, 263
- Goals, 4, 17, 61, 86
- Going concern, 272, 273, 276
- Goods and Services Tax, See GST

- Goodwill, 47
- Government funding, 83
- Government-imposed responsibilities, 218
- Government regulations, 75
- Government support, 34
- Group insurance, 103, 104
- GST, 45, 75

- Hardware, 62
- Health, 247
- Health insurance, 223
- Hiring, 217-225
- Historical statements, 91
- Hobby business, See Business-hobbyists
- Human Resources Development Canada, 221

- Ideal customers, 129, 194
- Identifying a need, 121
- Identifying new business opportunities, 181
- Incapacity, 272
- Income-producing assets, 38
- Income splitting, 49
- Income tax, 45, 46, 223
- Incorporation, 48
- Industry specific software, 62
- Information, 150
 - and advice, 34
- Information technology, 184
- Initiative, 9
- Ink jet printer, 63
- Installment billing, 257
- Insurance agent, 104
- Insurance, 48
- Intangible assets, 236
- Intellectual property, 276
- Interactive media, 183
- Interest, 47, 79
 - Rates, 81
- International Standards Organization, 152
- Internet, 34, 60, 62, 177-186
- Inventory, 240
- Investors, 82
- Invoices, 61, 64, 257
- ISDN Line, 60
- ISO, See International Standards Organization
- IT, See Information technology

- Job Description, 221
 - Sample, 220
- Job interview, 222
- Joint ventures, 237-233, 239, 280
 - ending, 232
- Just cause, 224

- Keeping fit, 247-255
- Knowledge-based economy, 268

- Land and buildings, 240

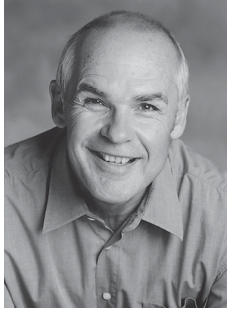
- Laser printer, 63
- Late payments, 257
- Lawyers, 35
 - Choosing, 50
- Leasing, 84
- Legal action, 259
- Legislation, 83, 100, 224
- Letterhead, 61, 64
- Liabilities, 7, 45, 48, 78, 101, 231, 243
- Licences, 64, 75
- Life insurance, 78, 103
- Limited company, See Corporation
- Line of credit, 14, 82, 260, 280
- Liquidating assets, 276
- Listening, 133, 147
- Living wills, 272
- Loans, 79
- Location, 243, 276, See Also Place
- Long-term liabilities, 240

- Making a difference, 5
- Management, 47, 210
 - Issues, 20
 - Restriction on, 50
- Manufacturing operations, 22
- Market value, 47
- Marketing, 109-126, 280
 - Communications, 71
 - Approach, 111
 - Literature, 72
 - Strategy, 125
- Marketing plan, 119-126, 280
 - Sample, 124
- Measuring customer satisfaction, 155
- Mergers, 235-244, 280
 - Checklist, 242
 - Agreement, 243
 - Process, 238
 - Partners, 238, 239
- Moran, John W., 265
- Mortgage, 280
- Multifunction machines, 63
- Multilevel marketing, 24
- Multitasking, 115
- Municipal licences, 64

- Name search, 46
- Named peril, 101
- Negligence, 7
- Negotiable terms, 257
- Net worth, 78
- Network of contacts, 82, 126, 142, 194, 201, 205, 206, 212, 238, 241, 253, 275, 277
- Networking, 112, 166, 170, 178, 280, See Also Network of contacts
- New business, 204
- New products, 253
- Non-disclosure agreement, 242
- Nontransferability, 231
- Nostalgia, 25
- Nutrition, 248

- Objectives, 125
Office space, 57, 219
Office supplies, 64
Officers, 50
Operating results, 91
Operations, 229
Opportunity analysis, 124
Organizations, 167, 170
Overhead, 88
Ownership share, 243
Ownership issues, 19
- Pagers, 61
Paper wardrobe, *See* Stationery
Part-time business, 7
Partial payment, 258
Partner-shareholders, 83
Partnerships, 46, 227, 280
 Agreement, 46
 Dissolution of, 47
Partnership draws, 47
Passion, 30
Patents, 276
Peer recognition, 5, 204
Perceived value, 22
Permits, 64, 75
Personal assets, 44, 48
 Ownership of, 44
 Seizure of, 44
 Separation from business assets, 44
Personal contacts, 166, 179, 221
Personal draw, 89
Personal expenses, 47
Personal financial information, 103
Personal satisfaction, 251
Personal savings, 78
Personal services, 27
Personal strengths, 241
Personality, 138, 139
Photocopiers, 63
Place, 47, 114 *See Also* Location
Planned communications, 167
Postage meter, 63
Potential customers, 166, 188
Preferred status, 203
Price, 22, 75, 114
Price-cutting wars, 6
Print communications, 168
Problem-solving, 101
Product, 114
Production approach, 110
Productivity, 248, 250
Professional advisors, 276
Professional services, 35
Profit and loss statement, 280
Profit, 6, 69
Promotion, 114
Property insurance, 101
Public relations, 169, 172
Purchaser, 275, 277
- Qualifications, 219
Qualified referrals, 206
- Qualifying, 200, 210
Quality service, 145-154
Quality, 8, 22, 75, 266
- Rates, 8
Realtor, 276
Recordkeeping, 47
Records, 15
Recruiting, 221
Recycled paper, 64
References, 222
Referrals, 199-207, 209, 221, 238, 267
 Fees, 205
Registration, 45, 46
Relationships
 with co-workers and employees, 18, 218
 with customers, 22, 30, 38, 132, 202, 205, 253, 267
 with family and friends, 5, 18, 79
 with other businesses, 206, 237
Relevance, 151
Reliability, 131, 203
Repetitive Strain Injury, 57
Replacement cost, 101
Reports, 63
Representatives, *See* Agents
Research, 68, 99
Research, 99
 and development, 230
Reserves, 47
Resources, 14, 15, 34, 204, 75
 Pooling of, 228
Responsibilities, 213
 as an employer, 222
 delegating, 17
 sharing, 17
Responsiveness, 132, 203
Restriction on interests, 47
Results, 69
Retailers, 24
Retirement, 47, 273
Revenue, 14, 45, 86, 24, 90, 254, 259
 Projecting, 88
Revenue Canada, *See* Canada
 Customs and Revenue Agency
Revenue ñ Expenses = Profits, 91
Ring selector, 59
Risk management, 97-105
Risk-taking, attitudes toward, 9
- Sale to a third party, 275
Sales approach, 111
Sales tax, 45, 64, 75
Sales and marketing, 229
Securities legislation, 82
Selling your own work, 22
Seminars, 34, 167, 171
Service providers, 26
Services, value of, 6
Setting up your office, 57
Share ownership, 49
- Shareholder's agreement, 49, 83
Shares, transfer of, 49
Short-term notes payable, 240
Signing authority, 47
Skills, 76, 136, 218
 Classification of, 136
Sleep, 250
Small business, 280
Software, 34
Sole proprietorship, 45, 280
Sources and uses of funds, 86, 89, 280
Specialized equipment, 63
Specialty items, 22
Specifications, 213
Speeches, 167, 171
Spreadsheets, 88
Standardized procedures, 148
Standards, 7
Starting from scratch, 34
Stationery, 64
Strategy, 122
Subcontracting, 207-215, 236, 239
 Agreement, 213
Succession planning, 17, 272, 273, 280
Supervision, 210, 218
Suppliers, 231, 241, 243
- Tangible assets, 38, 236
Tax rates, 49
Tax registrations, 64
Tax returns, 15
Taxes, 100
Technology, 263
Telecommunications, 59
Telephone number, 59
Term insurance, 103, 104
Term loan, 80, 280
Term of partnership, 46
Termination of employees, 224
Terminology, 150
Thank you's, 195
Time commitment, 47
Time limits, 23
Trademarks, 276
Training, 218, 223
Transition plan, 275
- Underwriting, 104
Unemployment insurance, 223
- Virus detection software, 62
- Web browser, 62
Whole life insurance, 103, 105
Wholesalers, 24
Word processing, 61
Word-of-mouth, 22
Worker's compensation, 223
Working capital, 87
Workshops, 34, 167, 171
Write-offs, 47
Writing for publications, 169, 172

About the Author



Larry Easto has been a lawyer and a business consultant for over twenty-five years. He is a popular speaker and workshop leader and the author of several leading business books, including *How to Succeed in Your Home Business*, *More Business for Your Business*, *Networking Is More Than Doing Lunch*, and *The Complete Idiot's Guide® to Buying and Selling a Business for Canadians*. Larry is a regular columnist for *Small Business Canada* magazine and has been a weekly business columnist for *The Toronto Star*. He has also appeared on national television and radio.

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LARRY EASTO has been a lawyer and a business consultant for over 25 years. He is a popular speaker and workshop leader and the author of several leading business books.

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