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ENTREPRENEURSHIP FOR SMALL BUSINESS INSTITUTES IN POLAND

Part One

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ENTREPRENEURSHIP FOR SMALL BUSINESS INSTITUTES IN POLAND

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FOREWORD

The United States Agency for International Development (U.S.AID) sponsored this project as part of the U.S.Congress initiative entitled Secure Eastern European Democracy (SEED Act). This project is one of a number of university-based initiatives to provide education for university faculty in emerging countries about business management and economics in support of the newly established market economy.

Since June of 1991, the International Enterprise Academy at The Ohio State University has worked cooperatively with the Solidarity Economic Foundation in Gdańsk, Poland, to facilitate the creation of three Polish-American Enterprise Institutes in connection with the universities in Białystok, Poznań and Rzeszów. In each site two coordinators and fifteen or more faculty members have established courses for business owners in Entrepreneurship, Marketing, Management, Finance, Strategic Planning, and Export-Import. In addition, we developed skills among the faculty for business advising in these areas and developed case studies of Polish entrepreneurs.

The development of the six curriculum products took place over a two-year period and were the cooperative efforts of the coordinators from the Polish Institutes and the faculty from various American Universities. We are indebted to the following people for their dedication, patience and understanding in addition to their outstanding expertise in the area.

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CASE STUDIES OF POLISH ENTREPRENEURS

Lisa Mazzei, The Ohio State University,
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The editors of these six curriculum products deserve special thanks for two years of attention to detail and schedules that everyone thought was impossible. Both Piotr Koryński and Elżbieta Jacowicz have masters degrees in economics from the University of Gdańsk in Poland. Since the beginning of this project, they have worked at The Ohio State University in an effort to make these curriculum products appropriate for use in their country.

We also thank the secretaries in both countries and others who worked hard on these six very ambitious curriculum projects. At The Ohio State University we especially want to thank Barbara Rahe, Jeanne Thomas, Janet Ray, and Kathy Summerfield. In Poland, we want to thank Dagmara Topolewicz, Ewa Dratwa, Małgorzata Tyburczy, Edyta Rusin and Dorota Malaszkiewicz.

Because these curriculum products include many copyrighted materials that we have obtained limited permission to use for this project, this product may not be published or used for other purposes without express permission from The Center on Education and Training for Employment at The Ohio State University.

We believe that these materials will provide long-term benefits to the faculty for whom they were designed and the business owners who will participate in their courses. We hope that these American models of business training will make a difference in the communities where they are used and impact on their success in a market economy.

M. Catherine Ashmore
Director, International Enterprise Academy

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We are grateful to the primary author, Vicky Rash of the Center on Education and Training for Employment, for development of this teaching outline for use in the Enterprise Institutes in Poland. She was assisted by Boguslaw Plawgo, Andrzej Jurgilewicz, Piotr Korynski, M. Catherine Ashmore, as the materials were assembled in 1991–93.

We also are indebted to the publishers or authors who gave permission to use selected portions of their copyrighted materials. They include:

Working Woman Magazine
Akron Beacon Journal
Reader's Digest
Entrepreneur Magazine
Harvard Business Review
Kiplinger Report
Inc. Magazine
Business Week
Small Business Forum
National Center for Research in Vocational Education
Center on Education and Training for Employment

ENTREPRENEURSHIP MODULE

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INTRODUCTION

Entrepreneurship is a comprehensive group of competencies that address the unique approach to managing a business when you must be responsible for everything in a business and constantly able to change as new challenges arise. This course consists of a 30-hour training module. Many of the competencies in other courses in the Entrepreneurship Institute Program might also be considered "entrepreneurship". For this program you will develop the following competencies in the Entrepreneurship Course:

- Use competencies from all entrepreneurship functions to develop a business plan.
- Explain the advantages of certain characteristics (behaviors) generally seen in entrepreneurs.
- Apply a creative thinking process.
- Explain the current economic situation and apply it to your business.
- Identify opportunities for your business to expand.
- Analyze challenges and successes of other entrepreneurs.
- Locate resources needed to help the business.
- Determine how human relations skills should be used in your business.
- Establish moral and ethical values as a business person.
- Develop systems to use the computer in your business (spreadsheets, word processing, etc.)
- Know how to use business law.

DEVELOPING A BUSINESS PLAN

UNIT 1

Title: **DEVELOPING A BUSINESS PLAN**

Purpose: This session is designed to help the participant understand what a business plan is.

Objective: Upon completion of this unit, the participant will–

- gain an understanding of a feasibility study and life cycle of business planning.
- have an understanding of what a business plan is.
- be able to write a business plan.
- be able to use a business plan as a guide for setting and completing goals.
- be able to use a business plan as a tool to obtain financial support of the business idea.

Materials:

Transparency 1-1:	Strategic Management of a Business
Transparency 1-2:	Business Life Cycle/Type of Plan
Transparency 1-3:	Feasibility Study Process
Transparency 1-4:	Primary Reasons for Business Failures
Transparency 1-5:	The Business Plan
Transparency 1-6:	If You Fail to Plan, You Plan to Fail
Transparency 1-7a:	Stages of Business Growth
Transparency 1-7b:	Why People Don't Prepare Business Plans
Transparency 1-7c:	Modified Business Plan Outline
Transparency 1-8:	Planning Your Business Includes
Transparency 1-9:	The Business Plan
Handout 1-1:	The Business Plan: Why and How
Handout 1-2:	The Importance of A Business Plan
Handout 1-3:	A Well-Grounded Plan Can Launch Your Business
Handout 1-4:	Every Entrepreneur Starts with a Well-Conceived Business Plan
Handout 1-5:	Planning Your Business
Handout 1-6:	Development: A Bird's Eye View
Handout 1-7:	Video Handout Materials – 10 pages
Handout 1-8:	How to Create Your Business Plan

Handout 1-9:	Business Plan (outline)
Handout 1-10:	Business Plan Checklist
Handout 1-11:	Expanded Business Plan Format
Handout 1-12:	Entrepreneurs' Feasibility Questionnaire
Handout 1-13:	Business Plan "Things To Do"
Handout 1-14:	Business Plan "Sugarbabies"

Resources:

Business Week, December 4, 1989. pp. 124–125

Business Plan, Technical and Vocational Institute, pp. 5:1–5:12.

The Business Plan Video, SBA publication

Activities: An overview and orientation of entrepreneurship will be discussed.

An overview and orientation of the business plan will be discussed.

Discuss general understanding of the business plan using overhead transparencies for explanation.

View 'Business Plan' Video.

Begin writing a Business Plan.

Discuss various examples of Business Plan Styles using handouts as guides.

Product: A partial business plan will be prepared.

Assignment: The participant will be instructed to complete a business plan that will describe the current business situation. This plan can be used to assess completion of goals and as a guide to keep the business owner on track.

Notes to Instructor: This unit was designed to provide information to participants to be able to create an effective business plan that can be used both as a guide of goal completion and as a tool to be used in the search for monies.

Estimated Time:

Description and explanation of business plan	45 minutes
Viewing of video	30 minutes
Discussion of video	15 minutes
Discussion about business plans	30 minutes
Writing a business plan	30 minutes

UNIT 1

THE BUSINESS PLAN

CONTENT	PROCESS
What is business planning? Planning is vital to all of us in both our personal lives as well as our businesses. The management of a business should be conducted through strategic planning. The type of planning depends upon the stage of development the business is in. Strategic planning can be divided into three areas: The feasibility study, the business plan and the strategic plan. The type of plan will be determined by the life cycle of the business. The first step is the feasibility study. This helps the owner or prospective business owner determine if his/her venture is feasible. The next step is the business plan. This unit will concentrate on the business plan. The final step is the strategic plan which will be discussed in another unit.	Instructor will show TP 1-1, TP 1-2, TP 1-3, and TP 1-4. TP 1-1 - Strategic Management of a Business TP 1-2 - Business life Cycle/Type of Plan TP 1-3 - Feasibility Study Process TP 1-4 - Primary Reasons for Business Failures.
What is a Business Plan? In this unit you will learn how to develop a business plan that will help in both the start-up stage as well as the continuing operation of an existing business. Before developing a business plan, think about. - what is a business plan? - how does a business plan help the small business owner? - what information should be in a business plan?	Instructor will ask: What is a Business Plan? Have you ever written a Business Plan? Instructor will show overhead transparency TP 1-5 - The Business Plan Title Page

CONTENT	PROCESS
Defining Business Plan? A business plan is a picture of your business. It is a vision. It is a personal document and the development or writing of the business plan should not be delegated. A business plan is a window into how the entrepreneur thinks. The writing process may take a long time. It is a tool for acquiring capital. A well-constructed business plan is the fastest vehicle for obtaining capital. There is no one perfect format for creating a business plan. The type and style of plan depends upon the business and the business owner.	Instructor will explain what a business plan is and why it is important to have a plan.
There Are Three Major Parts in a Business Plan A typical business plan contains three major sections: The introduction and executive summary, and a description of the business and its markets and the financial statements. A business plan can range from three to 300 pages depending upon the complexity of the business. A business plan has two distinct purposes. One, it is a guide or road map that lists goals and objectives of a business. Second it is a document that can be used for acquiring monies.	

CONTENT	PROCESS
A business plan is not etched in stone. It can and should be changed as the directions of the business change. It should be reviewed every six months to one year to see if the business is continuing in the desired direction.	
Many businesses try to realize a dream of starting a business, but many of them fail, because they fail to plan.	Instructor will show overhead transparency: TP 1-6 - If you Fail to Plan, You Plan to Fail.
Many fail because they don't plan carefully before opening a business. A new business needs a business plan to serve as a guide. In the case of an existing business, a business plan gives directions and helps to keep the business on line with goals. A business plan gets you where you want to go via a well-planned, organized route.	
The Stages of Business Growth There are basically three stages of business growth: pre-startup, startup and transition into growth or decline. In all three stages, a business plan is needed.	Instructor will show overhead transparency: TP 1-7a - Stages of Business Growth
Why Businesses don't have a Business Plan. Some of the reason include: I don't need one. I don't know how to begin. I don't have enough time. I'm not an accountant and I have plenty of business and profits.	Instructor will show overhead transparency: TP 1-7b - Why People Don't Prepare Business Plans.

CONTENT	PROCESS
What should be asked before writing a Business Plan? Before you start and as you are in a business you must consider several questions about your purpose for being in business. Why am I starting (or in) a business? Why will my business be profitable? What am I offering for sale? Who is my target market? Who is my competition and how am I different? How will I convince my market to buy from me? How many employees do I need? How much money will I need to get started or at the present time (if already in business?)	Instructor will show overhead transparency: TP 1-7c - Modified Business Plan
What information should be contained in a Business Plan? It is important to identify specific goals for the business plan. There is no perfect or right way to develop a business plan. It can be broken down into parts: description of owner, location, market and market analysis, strategies, management, staff, as well as financial information. The business plan clarifies financial needs, identifies management pathways, and serves as a communication tool.	Instructor will show overhead transparency: TP 1-8 - Planning Your Business Includes. Instructor will distribute handouts: HO 1-1 - Business Plan: Why & How HO 1-2 - The Importance of a Business Plan HO 1-3 - A Well-Grounded Plan Can Launch Your Business HO 1-4 - Every Entrepreneur starts with a well-conceived Business Plan HO 1-5 - Planning Your Business HO 1-6 - Development: A Bird's Eye View Handouts will be discussed briefly. Participants will be expected to read thoroughly after leaving session to discuss in detail the following session.

CONTENT	PROCESS
The Business Plan Video	
The business plan is a vision of the business. A document to obtain working capital and or investments. It is a tool for measuring and improving performance and a basis for sound decision-making. It is a way to ensure that partnerships last, as well as a way to motivate employees.	Instructor will show 'The Business Plan' Video and discussion will follow. Instructor will distribute the business plan video workbook for note taking during the viewing of the video. HO 1-7.
The three basic things a business plan must provide is the evidence of focus–what one thing or several things that you do exceptionally well, an understanding of who your target customers are, and an appreciation of investor or lender needs.	
The planning process includes: setting goals and objectives, development of operating plans, development of financial data, as well as the actual writing of the plan.	
The executive summary contains the mission statement, the date the business began, names of the founders and the functions they perform, the number of employees, the location of the business, description of plant or facilities, products or services, banking relationships, summary of company growth and summary of management's future plans. It should also contain an organizational chart. The management and marketing sections should be extensive and discuss all facets of the business makeup. The marketing section should be a major part of the plan, but many times it is the weakest in the market segment.	Instructor will distribute handout: HO 1-8 - How to Create Your Business Plan

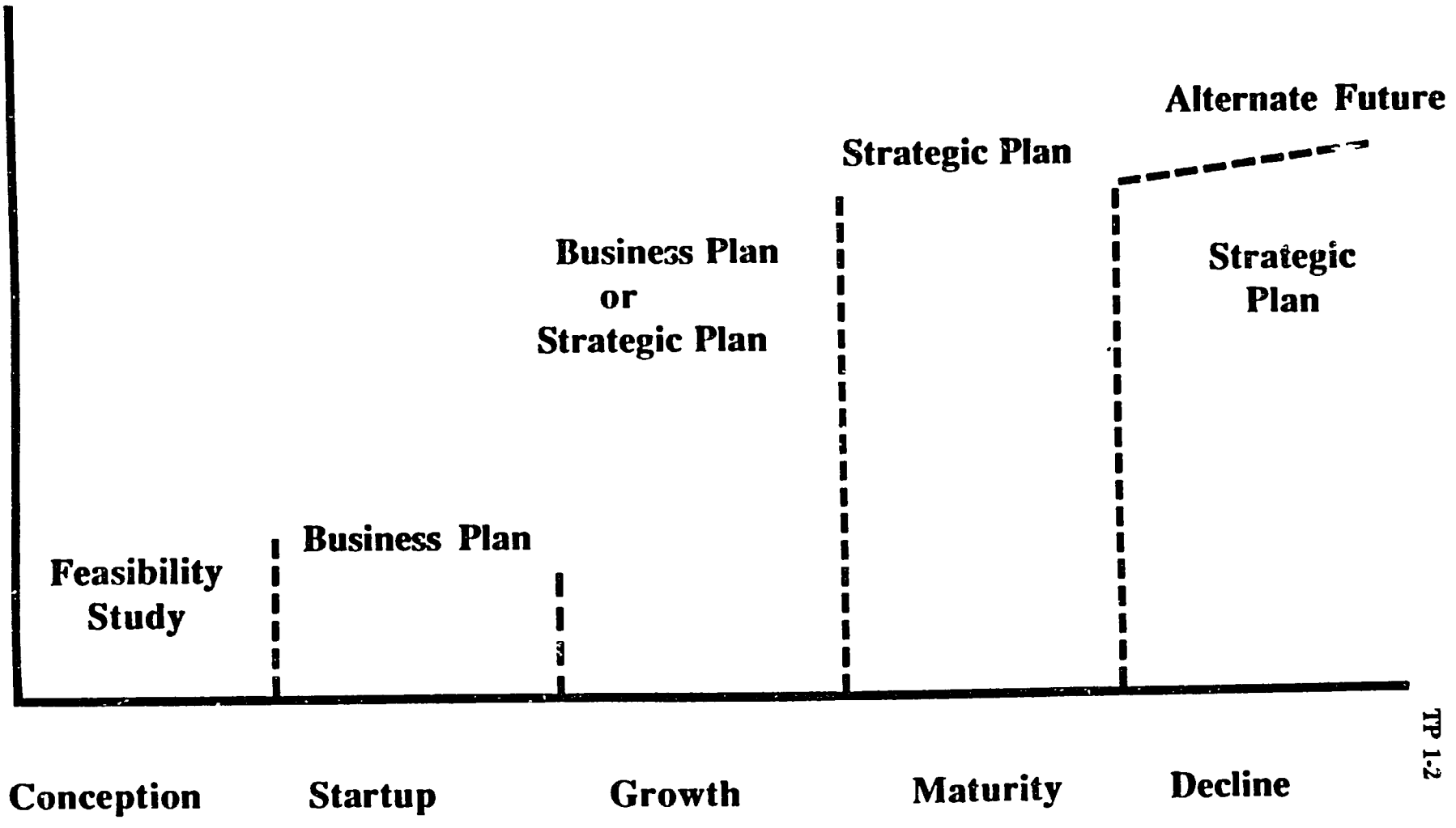
CONTENT	PROCESS
The impact of economic conditions should also be included and should contain the state of the economy, the conditions or your industry and prospects, new technologies, labor market and labor union influence, impact of local and foreign competition and other demographics.	Instructor will show overhead TP 8: TP 1-8 - Planning Your Business Includes Instructor will show overhead transparency TP 1-9: TP 1-9 - The Business Plan
Why do Businesses Fail? Businesses fail for a variety of reasons. They fail because of illness of management/ owners, mismanagement of capital, changing technology to personnel problems. It is important that the business owner/manager be constantly in tune with the operations of the business.	Along with this overhead instructor will distribute handout: HO 1-9 - The Business Plan (outline) Discussion will cover the parts of the business plan. HO 1-10 - Business Plan Checklist HO 1-11 - Expanded Business Plan Format HO 1-12 - Entrepreneurs' Feasibility Questionnaire Instructor will share and discuss samples of completed business plan. HO 1-13 - Business plan "Things to Do" HO 1-14 - Business plan "Sugarbabies"
Developing an individual business plan With the information about business plans, one should be able to start writing a business plan. It is important to follow an outline to keep the writer on track of the information needed to make affective and useful business plan.	Participants will start writing their personal business plan.

STRATEGIC MANAGEMENT OF A BUSINESS

Stage of Development	Feasibility Study	Business Plan	Stragetic Plan
Startup (0-12 months)	XXXXXXX	XX	
Early Stage (1-3 years)		XXXXXXX	XX
Ongoing (3+ years)		X	XXXXXXX
Ongoing with New Product for Development	XXXXXXX	XXXXXXX	XXXXXXX
Ongoing with New Market for Development	XXXXXXX	XXXXXXX	XXXXXXX

TP 1-1

Business Life Cycle
And Type of Plan



TP 1-2

Feasibility Study Process

Primary Reasons for Business Failures

- Inefficient control over Costs and Quality of Product
- Bad Stock Control
- Underpricing of Goods sold
- Bad Customer Relations
- Failure to promote and maintain a favorable public image
- Bad relations with suppliers
- Inability to make decisions and act upon them
- Failure to keep pace with management system
- Illness of key personnel
- Reluctance to seek professional assistance
- Failure to minimize taxation through tax planning
- Inadequate personnel relations
- Loss of key personnel

- Lack of staff training
- Lack of knowledge of merchandise
- Inability to cope adequately with competition
- Competition disregarded due to complacency
- Failure to anticipate market trends
- Loose control of liquid assets
- Insufficient working capital or incorrect gearing of capital borrowing
- Growth without adequate capitalization
- Bad budgeting
- Ignoring date on the company's financial position
- Inadequate financial records
- Extending too much credit
- Bad credit
- Over borrowing or using too much credit
- Bad control over receivables
- Loss of control through creditors' demands

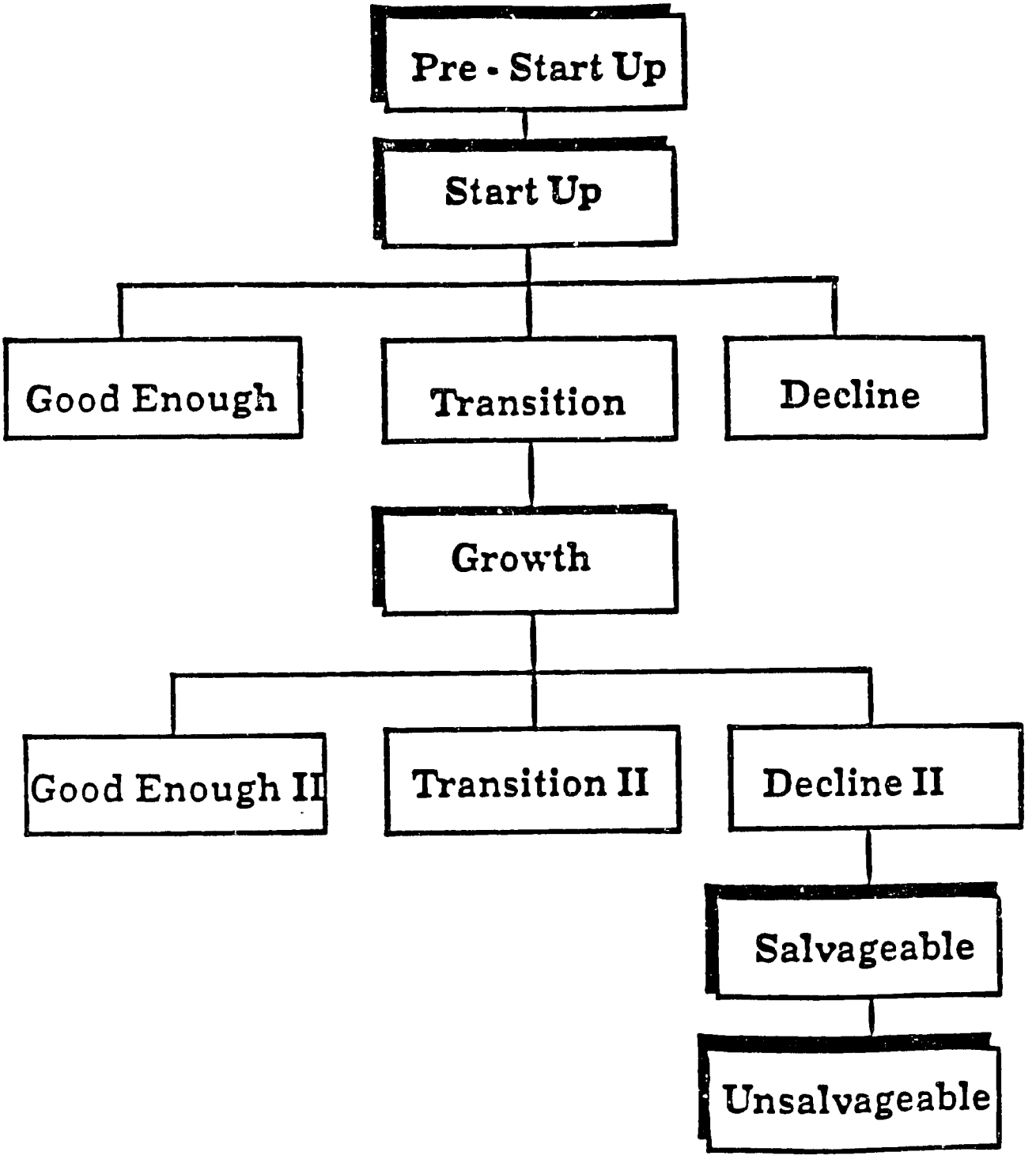
THE BUSINESS PLAN

IF YOU FAIL TO PLAN.....

YOU PLAN TO FAIL!

STAGES OF BUSINESS GROWTH

TP 1-7a



WHY PEOPLE DON'T PREPARE BUSINESS PLANS

"I don't need one"

"I have one in my head"

"I don't know how to begin"

"I don't have enough time"

"I'm not an accountant"

"I have plenty of business, plenty of time and enormously bloated profits — so I'm happy with my business as it stands"

MODIFIED BUSINESS PLAN OUTLINE

- ***Why*** are you starting a business?

- ***Why*** will your business be profitable?

- ***What*** are you offering for sale?

- ***Who*** is your target market?

- ***Who*** is your competition and how are you different?

- ***How*** will you convince your market to buy from you?

- ***How*** many employees do you need?
  Sales
  Operations
  Administration

- ***How*** much money do you need to get started (or at the present time)?

- ***One year budget***

PLANNING YOUR BUSINESS INCLUDES

- Objectives & Goals
- An Analysis of the Market
- A Description of the Business
- Financial Date
- A Summary of the Management and Operations

THE BUSINESS PLAN

THE BUSINESS

- Name of Firm
- Owner or Owner to Be
- Type of Business
- Goals
- History
- Location
- Personnel
- Economic/Accounting
- Inventory
- Legal

MARKET

- Customer
- Environment
- Competition
- Competitive Advantages & Disadvantages

MARKET STRATEGY

- Sales Strategy
- Promotion Strategy

MANAGEMENT

- Background of Management

FINANCIAL

- Sources and Users of Capital
- Statements — Historical & Projected

The Business Plan

Why Plan?

In order to succeed in business, you must know where you intend to go and how you are going to get there. In the process of planning, you will identify, assess, and determine how to deal with many potential problems. Unless you and your investors are prepared to lose a lot of money and endure considerable frustration in facing problems you have not foreseen, it is far better to undertake the time-consuming job of planning.

A thoughtful, responsible planning effort based on careful fact-gathering and analysis will help you as a business owner to protect and enhance your investment of time and money.

Planning is one of management's most important tools. Just as a contract would not start to build without plans, no manager should be building his business without a plan. The plan provides a communication to all the necessary people connected with a business so that they are working toward the same objectives. The plan also establishes checkpoints to measure progress and to trigger corrections if necessary.

Responsibility for business planning lies with the owner or manager. Although this planning responsibility cannot be delegated, the involvement of other management people (in companies large enough to have key department managers) is critical. Management team participation provides a combination of perspectives that may not otherwise be available. Also, team development of the plan creates a sense of ownership by the people likely to be responsible for its implementation and aids in their personal development.

Planning is hard work; in fact, it is some of the most difficult and challenging work that management does. The more effort put into planning, the more complete and accurate the result, and the greater the value of the plan to management. Time and thought invested in analyzing and planning your business will continually pay off.

How to Plan

There is no one right way to prepare a business plan. What you do and how you do it depends on you, your company, and your particular circumstances.

It is important, however, to know and consider the topics usually critical to the success of your business, and the topics that interest people who may be in a position to work with you. Keep in mind those who might provide financing, join your venture, or otherwise become involved in your business world.

When a business plan is well done and properly presented, it can be extremely convincing. It should convince you that your undertaking represents a sound investment for your own time and money. It should convince others that your business can be an attractive place in which to invest venture capital, or that it can be an acceptable candidate for a loan.

THE IMPORTANCE OF A BUSINESS PLAN

Novice business owners often don't understand that planning is the key to getting things done and making things happen.

If you're taking a long trip and want to cover several cities and states, want to see the main attractions and stay in fine hotels, what's the first thing you do? You go to the bank, pick up a lot of cash, hop in your car, and take off, right? Wrong. You make advance reservations, stay in hotels of your choice, map out where you want to go, and so on. If you didn't do this before going, you'd find that you didn't bring enough money to cover expenses, because you didn't know how much gasoline or hotels would cost. When you arrived at the hotel, you'd find that it was booked; no reservation, no room. When you got to Disneyland, you'd find it was closed for renovation.

This sort of thing isn't the result of bad luck. It comes from poor planning. You may get tired of hearing the necessity for planning when starting a business, but we can't stress the importance of a sound business plan enough. It is essential if you are serious about having any chance for success in your business venture. However, the sad truth is that most people plan trips and vacations better than they plan their business ventures. Frequently, it doesn't occur to them that a business plan can help – tremendously.

Regardless of what you've been told by friends and associates, planning a business is necessary for success. Without a proper business plan, the chances of a business succeeding are drastically reduced. Just as important as the plan itself, however, is its preparation. Far too many individuals who prepare plans concentrate on form and neglect the content of the business plan. The finished result is often a business plan that looks good but doesn't tell your prospective audience anything.

There is no question that form is an important factor when writing effective business plans, but just as important, if not more so, is content – the information that is conveyed through the plan. The goal of this book is to not only provide you with the correct form of a business plan but also to guide you through the methods of researching and producing the proper information required to add substance to the plan. Generally, most business plans will require information on several topics that will affect the marketing and support of the product. Those topics are usually:

- The industry
- The competition
- The customer

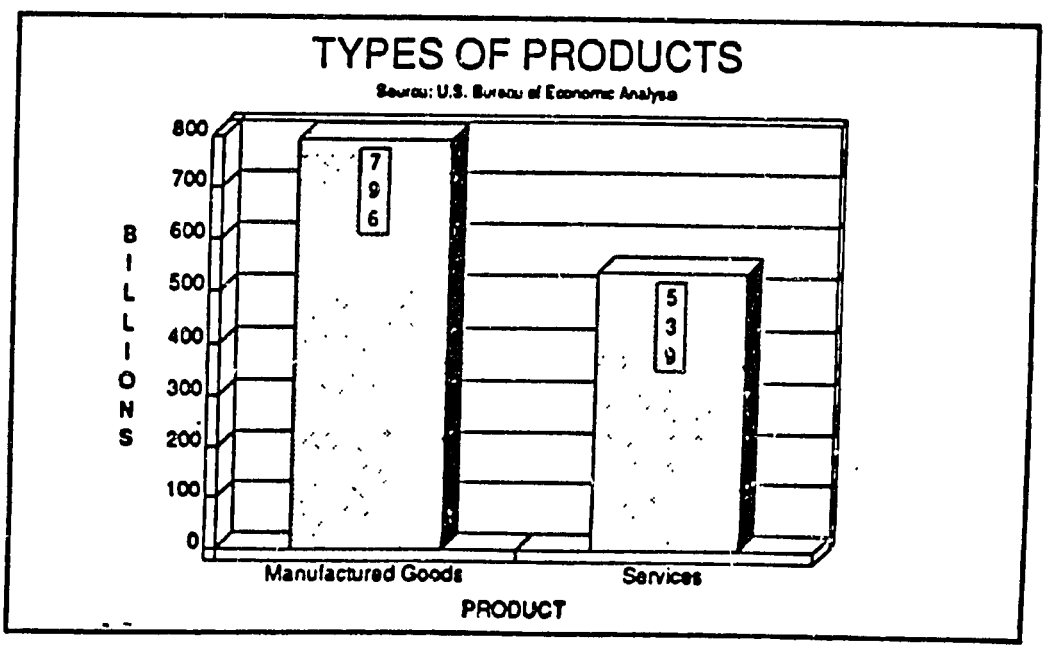
It is also important to note that this guide is geared toward new business start-ups, not the expansion of existing businesses. Offering a new product would require revising an existing business plan or developing a marketing plan, both of which we cover in *Entrepreneur's Institute*, Volume III.

When developing a business plan for a new start-up, it is important to keep in mind that the business will concentrate its efforts on marketing a product of some sort. In the traditional sense, product has always meant something that is physically tangible, and many books on business plans have dealt exclusively with this concept; but with the emergence of the service sector, product has taken on a whole different meaning. Today there are two types of products:

1. Hard products – Refers to product in the traditional sense, meaning a manufactured item that is physically tangible such as an item of clothing or a book.

2. Service products – Refers to an intangible product where the business is performing a service for a client such as washing and polishing a car or landscaping a yard.

When it comes to the production of the business plan, in many instances there is little difference between hard and service products; but in those areas where there are differences, they are sometimes drastic, and you need to be aware of them.



The following sections will take you through the intricacies of developing a business plan, explain its value and use, and point out those areas where hard product plans differ from those of a service-oriented business.

Why You Need A Plan

The process of creating a business plan forces you to take a realistic, more or less detached look at your business in its entirety. Why is it so important to see your venture as a whole? Most people who have business ideas deal with them in an unorganized manner. Putting a business plan together and writing down specifics provides you with the opportunity to evaluate your business in its entirety so that you can proceed to implement it.

A finished business plan becomes an operating tool that will help you manage your business and work toward its success. The final, completed plan is the chief instrument for communicating your ideas to others – businesspeople, bankers, partners, etc. If you seek financing for your business, the plan will become the basis for your loan proposal.

In the pre-opening period of a business, the business plan becomes incredibly useful. It helps you to gather and analyze information that you can apply to the overall concept. It essentially becomes the animating force that takes a concept and puts some life into it. All of us at some time have had great ideas that would have made us a million dollars. But if we're so smart, how come we're not rich? The answer is simple. We didn't do anything but get the idea. To be successful in business, you have to take the next step from thinking of an idea to actually putting it into action.

The business plan allows you to take nebulous thoughts and put them in concrete form. It is the difference between those who merely have an idea and those who make money on one.

The importance of planning cannot be overemphasized. It is the key to unlocking the door to success. And once you open that door, what do you find? About a thousand more doors with all kinds of variables, problems, and situations. The only way you can effectively handle those variables in a business venture is to have a logical, well-organized business plan.

By taking an objective look at your business, you can identify areas of strength and weakness. You can pinpoint your needs or details you might normally overlook. A business plan will give you enough information to help you spot problems before they arise. Planning will help you determine how you can best achieve your business goals.

A business plan does several things for you:

- Helps you identify your objectives.
- Helps you develop strategies to meet those objectives.
- Helps you earmark problems and suggests ways to solve them.
- Helps you avoid problems altogether.
- Helps create a structure to your business by defining activities and responsibilities.
- Helps you obtain the necessary financing to start your business.

For a plan to be effective, it is imperative that you do as much of the work, as much of the research, as much of the investigation of your business as possible. In short, you must do the planning.

A question commonly asked is, "Can I hire somebody to do this for me?" Sure you can. There are companies that will organize and write a business plan for you. They will charge you several hundred dollars for their services, and you will receive a very professional and polished plan – one that will become a very valuable tool. But in our opinion, a business plan becomes even more valuable when you devote the time to organize and write it. It helps you to understand better just what your business is capable of doing and will make you a better manager when you're up and running. Just as you cannot expect the vision of your business to grow without your active involvement, neither can you expect a business plan to do everything for you without your controlling its creation.

When you thoroughly research and pull your business plan together, you get an enormous amount of financial and operational information about your business. Information promotes business knowledge and confidence. Confidence, in turn, promotes enthusiasm and makes you the best salesperson for your business. The bottom line is that if you're going to use your business plan for the purpose of raising money, you will have to be able to sell your idea, your plan and your business. If you don't know everything about your program – all the ins and outs, ups and downs, pros and

cons – you're not going to be the best salesperson for it. This doesn't mean you must be a super salesperson in order to go into a business. But the owner of any business must be able to talk benefits and risks in an intelligent and straightforward manner. That is what we mean by being a salesperson, and anyone can achieve this level of knowledge.

You must take plenty of time to put your plan together correctly. Some people take two weeks, others four months. If you're working full-time right now, you'll find it's almost impossible to put a plan together quickly. This takes time and effort if you're serious about your business. Through the course of your business career, you can always hire somebody to perform certain tasks. But you can't hire anyone to do your planning. No one can read your mind. You are the one with the vision, and even if you hire a writer to organize that vision into a business package with an acceptable form, you're the person who must decide what you want to do with your business.

If you're not yet in business, a good business plan will give you important information. First and most important, a well-organized plan will tell you if your idea makes sense. Why is this seemingly obvious fact important? Frequently, when an entrepreneur presents an idea to individuals or

PROFESSIONALLY PREPARED BUSINESS PLANS

You can have your business plan professionally prepared; researched, written, printed – the works. There are pros and cons to this practice. You can hire a business consultant who writes business plans for a living. We believe that a knowledgeable consultant can be an extremely useful advisor to anyone contemplating opening a business.

But if you plan to make a profit in your own business, if you plan to control its operation, you must understand every word, every dollar amount and item entry, every penny, every paragraph of any plan you submit to a banker, a landlord, a lawyer, or a venture capitalist. Why? At some point, that consultant is going to move on. You will have to stay with your business, on your own, and run it yourself. Or you will have to make your own presentation to this or that loan officer, by yourself. These other people or organizations are going to be taking a good look at you and asking you questions. If you have to look to your consultant to answer fundamental issues, neither you nor your business prospects are going to be viewed favorably.

In the planning phase of your business, therefore, we encourage you to do the work yourself. If you're not a writer, you must nevertheless be the

Continued

organizations with a view towards obtaining financing, someone asks, "Why don't you give me a business plan on it?" When he starts working ont he plan, he may find he's left out one thing which can materially affect the chief variable of any business, the net profit. Accordingly, a business plan can tell the entrepreneur whether there is enough net profit in a business to make it an enterprise worth his time or investment or both, hence tell him whether it makes sense.

A business plan forces you to analyze your market from your point of view as business operator and from your potential customer's point of view. You must determine the potential demand for the product or service you plan to offer. Additionally, you must evaluate your particular ability to provide a product or service. Therefore, the second thing a business plan will tell you is whether your idea has a chance in the marketplace.

When you do a business plan, you're forced to see both pitfalls and potential in your idea. Simply put, this means a plan will tell you whether you're kidding yourself.

The fourth thing a business plan will tell you is whether you're capable physically, mentally, and emotionally, of taking on the chore of setting up, running, and operating a small business over the long term.

principal supplier of data to the writer who puts your information into the business plan form. If you can explain the concept of your business to someone who needs to understand it in order to put your plan into final form, then chances are good you will be able to make lenders and others understand it as well. In any case, remember that understanding comes from being involved with your business idea from the beginning.

A business plan will do you no good if you don't use it. When you prepare your plan, do so with the idea of using it fairly quickly. Business plans are little time capsules, valid only for a certain period of time. If you devise your business plan today and don't use it until next year, much of the information in it may well be outdated. You will have to revise it, restructure it, and go through the preparation process again.□

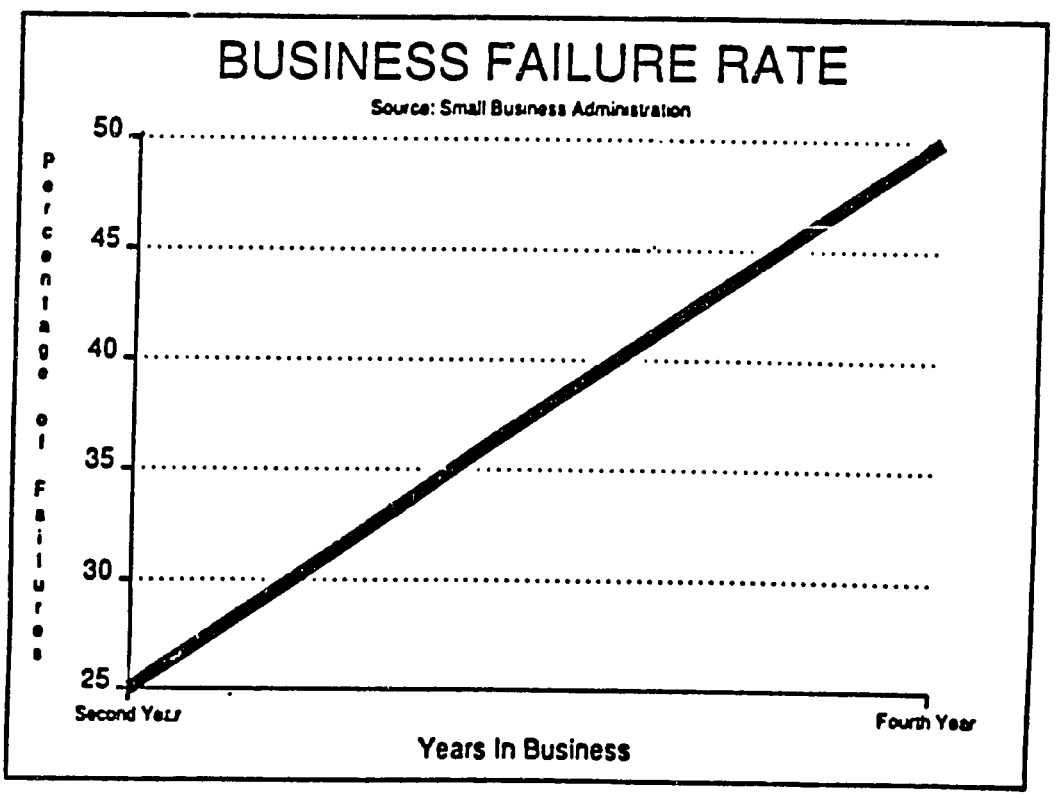
Plainly, a good business plan will save you time and money. Whether you're in business for yourself or somebody else, you realize that time and money are key in any enterprise.

What Will Happen Without A Plan?

As much as we would like to say that you stand a very good chance of developing a successful business without a business plan, the odds are stacked against you. Starting a business is a risky venture, and when you're not prepared, it becomes even more risky.

Much has been written about business failures. Every year, thousands of businesses fail – small, medium, and big. But while business failures know no size boundaries, the majority are classified as small businesses. According to data from the Administrative Office of the U.S. Courts, more than 98 percent of businesses filing for bankruptcy since 1980 were small.

In 1982, for example, Dun & Bradstreet reported that 25,346 businesses failed; this was a post-World War II record. Yet business failures during 1983 approached the previous high for the century, which was set in 1932 when D&B recorded 31,822 failures.



Most small business surveys show that the primary reasons for business failure lie in the following areas:

1. Inefficient control over costs and quality of product.
2. Bad stock control.
3. Underpricing of goods sold.
4. Bad customer relations.
5. Failure to promote and maintain a favorable public image.
6. Bad relations with suppliers.
7. Inability of management to reach decisions and act on them.
8. Failure to keep pace with management system.
9. Illness of key personnel.
10. Reluctance to seek professional assistance.
11. Failure to minimize taxation through tax planning.
12. Inadequate insurance.
13. Loss of impetus in sales.
14. Bad personnel relations.
15. Loss of key personnel.
16. Lack of staff training.
17. Lack of knowledge of merchandise.
18. Inability to cope adequately with competition.
19. Competition disregarded due to complacency.
20. Failure to anticipate market trends.
21. Loose control of liquid assets.
22. Insufficient working capital or incorrect gearing of capital borrowings.
23. Growth without adequate capitalization.
24. Bad budgeting.
25. Ignoring data on the company's financial position.
26. Inadequate financial records.

27. Extending too much credit.
28. Bad credit control.
29. Overborrowing or using too much credit.
30. Bad control over receivables.
31. Loss of control through creditors' demands.

The last quarter of the 20th century has witnessed the twin phenomena of more new businesses being started and more failing, year by year. This suggests that while business owners display a good deal of confidence and enthusiasm in opening their businesses, they also experience a high mortality rate.

A careful examination of the above list reveals that a lack of planning is the principal or underlying cause of business difficulty: "Inefficient control..."; "Failure to promote and maintain..."; "Failure to keep pace..."; "Inability to cope..."; etc. All of these, including money-related reasons for failure, are indicators of poor planning. Other things being equal, planning can make the difference between success and failure in business.

A business plan can help you avoid going into a venture that is doomed to failure from the start. Many people who have no chance of success start and fail in business. Had they prepared a plan, they would have found that there was not enough profit potential or that the market wasn't right for their business. They would have been able to determine in advance whether going into business was a good idea.

A business plan can tell you not only if your business is marginal but also why. Thus it can help you avoid the high price of failure and the high price of breaking even. Make no mistake; breaking even has plenty of cost attached to it. Suppose someone makes $20,000 a year. If he starts a business and grosses $20,000 a year, why (except for emotional reasons) should he endure the heartache, headache, pain and frustration involved in running the business, just to be his own boss? It's much easier to work for somebody else. Non-traditional motives aside, it's far cheaper not to learn by experience what business planning could have revealed in the beginning.

Business Planning As A Financial Tool

Many people want to use their businesses plan to obtain money. A business plan will provide information needed by others who evaluate your venture. A thorough plan becomes a financing proposal that will meet the requirements of most lenders.

There are many types of lenders or investors. The first and foremost for any entrepreneur are private funds that may be raised by tapping friends and family. Other options may include raising money from a Small Business Investment Company (SBIC), a single investor, a private placement through a securities firm, or a public offering either through a securities firm or through a self-issuer distribution, credit cards, banks, commercial finance companies, venture capitalists, and even government agencies such as the SBA. Keep in mind, however, that you will get money from them only by making them confident that your business is going to be secure and profitable over the next several years. Keep in mind that lenders have not been thinking about your business as you have. They have not been digging out facts on it for several months. They are seeing it on paper for the first time. You must therefore present something to them that clearly, succinctly, and reasonably gives them a feeling that you're going to make money and they're not going to lose any. For more information on sources of financing, refer to *Entrepreneur's Institute*, Volume I.

When someone reaches the point of needing a business plan, they're already thinking about the money needed to start the venture. Such people generally have two common traits: they desperately need financing, and they face the frustration of being at the end of the line for conventional lending resources. Large lenders aren't looking for small businesses to back. Worse, most small business owners have neither the time nor financial expertise to find the right sources and package their business in a manner that will convince lenders to accommodate them. Whatever kind of lender you finally find, you're going to have to present a cogent business plan.□

Technical and Vocational Institute, Albuquerque, New Mexico.

A Well-Grounded Plan Can Launch Your Business

by Susanne Woolley

You know that your business is destined for greatness. But to get there you need outside financing. For fledgling and expanding companies, that often means developing a written plan summarizing your venture and its prospects. Although entrepreneurs typically approach financiers with more visions in their heads than on paper, it's often the concrete plan, not you, that makes that vital first impression or cements the deal. So it can pay to invest some time and money into putting your best plan forward.

Many entrepreneurs develop a plan because a lender asks them to. But a plan is also a useful management tool–a way to quantify your objectives and expectations. Local small-business development centers (800-732-SBDC) are often a good basic resource. But at some point in the process, you'll want to call on other experts–an accountant, lawyer, independent writer or editor, or a consultant who specializes in business plans. "The downside of using a consultant is that you may not identify those areas that you really need to work on," says Gwenn Maxfield, president of Cost System Design, a cost-estimating and capital-budgeting firm in Bellevue, Wash.

That can spell trouble if a prospective financier asks you a complex question about your plan and you don't know the answer. If you say your consultant knows, your "credibility is gone," says George Crandall, a venture capitalist in Sacramento.

Many accounting firms offer good sample business plans and guidebooks, but another model you can follow is the prospectus of an initial public offering, says Noel Urben, president of BT Capital Corp., a venture capital subsidiary of Bankers Trust New York Corp. Urben suggests using that format and adding on your financial projections.

A typical plan contains three major sections: the introduction and executive summary, a description of the business and its markets, and the financial statements. These should include production, personnel, and general management data.

The most important section is the executive summary. This is what lenders and investors look at first and what persuades them to read, or skip, the rest of the plan. The summary, two or three pages, should detail what the company plans to accomplish, supported by summary financial projections. It's best written after the plan is completed to ensure consistency between it and the overall document, says Alan Weingarten, a general management consultant in Ramsey, N.J.

Must Reading. The meat of the plan is the business and markets segment–often, lenders say, one of the weakest parts. It includes a survey of the market and industry you will enter, your competition, your products or services, and your business and management goals. Stress your market orientation rather than your product.

"Focusing too heavily on the company's product or service, in investors' experience, usually comes at the expense of focusing on the wishes and needs of potential customers," say authors Stanley Rich and David Gumpert in their book *Business Plans That Win $$$* (9.95, Harper & Row). Another mistake is to zero in on existing competition but ignore potential new rivals.

Next, bankers and venture capitalists examine the management section, which include the resumes of the principals. "With good people, an investor knows they can be redirected if they're not doing well, but if you don't have the people, you're probably going to go nowhere," says Weingarten.

Some say the financial section is one of the toughest to write, but computer software programs have made it much easier to run projections. Cash-flow projections are a must. But go easy on spreadsheets–instead, interpret the data for your readers. Have realistic projections for the next three to five years and state your assumptions.

Keep It Short. The length of a plan can play a big part in its success. "In venture capital, we say the probability of success for a new business is inversely proportional to the length of the business plan," says Crandell. The standard length is 20 to 40 pages. You may want to prepare a second document that contains all of the supporting information, such as industry studies, letters of support, brochures, and reviews or articles, not the authors of *The Ernst & Young Business Plan Guide* ($12.95, John Wiley & Sons).

As for style, less is often more. Although experts suggest a neatly typed document, "it's the thought process that I look for," says Harvey Mackler, a senior vice-president at United Jersey Bank/ Central in Princeton, N.J. "We're not judging style points but the ability to succeed as entrepreneurs." In fact, a plan that's too slick can be a turnoff, seeming like an extravagant use of funds.

Preparing a plan takes time. A 10-page version took Maxfield a good eight months, not including an appendix to the document. A 45-page plan was a year's work for Wayne Whisnant and Cheryl Gainsford of Energy Innovation, an energy conservation company in Monroe, Wash. They did most of it themselves, but "you might easily expect to spent $500 to $5,000 on outside services," says Gary Lynn in *From Concept to Market* ($17.95), John Wiley & Sons).

As Rich and Gumpert say in their book: "The business that runs 'by the seat of their pants' often winds up with torn pants." But for that matter, the greatest plan in the world won't make your business a success. That part is up to you.

Business Week, December 4, 1989, pp.124-125.

ENTREPRENEURS of the 1990s

Every entrepreneur starts with a well-conceived business plan

When you were in high school, your teachers' advice to write outlines before tackling your term papers may have seemed illogical. After all, how could you know what you were going to write before you actually wrote it? And why should you even bother when writing your assignment off the cuff seemed faster than plodding through an outline?

Unfortunately, many entrepreneurs haven't outgrown this thinking. They'd prefer to leap into business without doing their initial homework.

But in today's competitive and sophisticated business atmosphere, this is almost impossible. Investors and bankers inevitably will demand to see your business plan–the corporate version of an outline–before financing your venture.

A well-written plan is the fastest vehicle for obtaining capital. Your business strengths and weaknesses become glaringly obvious when you put your thoughts on paper. Consequently, your plan acts as a snapshot of your company, showing investors whether your knowledge and managerial skills merit a financial risk.

"A business plan gives an investor a window into how entrepreneurs think," said Robert Spath, president of the Milwaukee Innovation Center, a consulting firm located at 741 N. Milwaukee St., Milwaukee. "If entrepreneurs can't properly go through the rigorous task of putting pen to paper, they probably aren't meant to go into business."

The plan also acts as a valuable management tool. Throughout your company's first years, it works as a guide, helping you make decisions about marketing and finances. It also acts as a report card, allowing you to measure your original objectives against the actual growth of your business.

To make sure your plan works for you, don't rush through the writing process. Gathering, analyzing and compiling the information you need can take from three to six months, depending on the complexity of your enterprise.

When finished, a typical plan runs between 30 and 50 pages. Traditionally, entrepreneurs include the following sections in their finished document:

- Executive summary;
- Business history;
- Product or service descriptions;
- Market description;
- Marketing;
- Operations;
- Management;
- Risk management;
- Financial plans;
- And an appendix.

Executive summary

The first section of the plan, the executive summary, is similar to a book review. Based on your short summation, readers–in this case, potential investors–will decide whether they'll wade through your entire document. Busy financiers won't bother reading more than your opening statements if your beginning thoughts are illogical or display a lack of professionalism.

In two to five pages, introduce the reader to your product or service and how it fits into the market. Then note your qualifications and the qualifications of other managers before moving into financial matters. State how much money you need and how you plan to use it.

Business history

In the business history section, indicate where and when your business was founded and by whom. Identify the business structure you've decided on (sole proprietorship, limited partnership, etc.). Mention if your product is ready to go to market or if it's int he development state. If you've obtained any other funding or already have incurred financial obligations, such as a lease, make sure you report this here.

Also include a section that paints a broad picture of your industry. Mention the major players in the business, state their growth in sales and profit and include their market share. Your goal is to convince the investor that you have solid knowledge of your industry as a whole. This information will not only enlighten laymen, it also will show that you know the business well enough to envision your place in the market.

Product or service description

The product or service description should introduce the reader to your product or service and explain why it would attract customers. Explain the competitive advantages of the product, specifying any proprietary features you've developed and utilized.

If your product is still in the research stage, describe how much work is still needed, how much time you'll need to complete the development.

The market

In the market section, describe your market in terms of geography and customer characteristics. Will your business serve people within a five-mile radius of your facility? In three states? Across the nation?

Who are your potential customers? Describe their interests in your product and sketch their identifying demographics, such as age or sex. Include how you'll reach these clients, mentioning your network of distributors and sales representatives.

PLANNING YOUR BUSINESS

Every business begins with an idea – a product to be manufactured or sold, a service to be performed. Whatever the business or its degree or complexity, the prospective business owner needs a comprehensive plan in order to transform a vision into a working operation.

This business plan should describe, in writing and in figures, your business and objectives, the proposed analysis of the market, a marketing strategy, an organizational plan, and measurable financial objectives. The plan is used by prospective lenders and investors as a means for evaluating potential success and by the business owner to assess continuously the strength of the operation and direction.

The entrepreneur must ask: What do I offer the marketplace? What does the marketplace offer me? What can I do to reach and adapt to this marketplace?

The success of your business depends largely upon the decision you make. A business plan allocates resources and measures the results of your actions, helping you set realistic goals and make logical decisions.

You may be thinking, "Why should I spend my time drawing up a business plan? What's in it for me?" If you've never worked out a plan, you are right in wanting to hear about the possible benefits before you do the work. Remember first that the lack of planning leaves you poorly equipped to anticipate future decisions and actions you must make or take to run your business successfully. A business plan:

...allows you to evaluate your proposed opportunity, evaluate risk, and determine feasibility, in a rational manner before you actually begin.

...gives you a path to follow. A plan with goals and action steps allows you to guide your business and judge the actual performance in relation to your plans.

...is a tool to use in securing needed resources. A plan can tell others about your operations and goals, and provide an insight into your business for your banker, suppliers, future personnel, etc.

...helps you develop as a manager. It can give you practice in thinking and figuring out problems about competitive conditions, promotional opportunities and situations that are good or bad for your business. A sound plan tells you what to do and how to do it to achieve the goals you have set for your business.

While there are many available formats to follow in preparing a business plan, it is the content which will make the plan of value as a working tool rather than the format. Each plan will be unique to the particular business and the individual preparing it. It should contain all pertinent information and only pertinent information.

Every plan should include the following information:

1. <u>The business objectives and goals</u>.
   What do you want to get out of the business?

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2. An analysis of the market.
   What business are you in? Who will buy from you?

3. A description of your business.
   What makes your business unique? Why will it succeed?

4. Financial data.
   What will be your income, expenses and profits?
   How much capital will it take to start?

5. A summary of the management and operation.
   Who will do what?

The extent which your plan fits into each of the above areas will vary according to your needs. Your plan will be unique and dependent on the following:

1. Your type of business.
2. Your personal needs.
3. Who will use the plan.
4. The information available.

A business plan may be one page or forty. The plan's reliability is not related to the length but rather the reality or feasibility of the information you have developed. The less sure you are of the components the greater your risk.

Your plan will become a dynamic working tool for your business to be changed as your business becomes operational and grows. It will measure your results, provide insight into the problems, provide information upon which to base future decisions. As your business begins, your familiarity increases, or as factors change, your plan should be reviewed and revised and used as a planning and control tool.

When addressing the five elements of the business plan in detail, the depth or extent of each element will be dictated by the business, the individual, the importance to the business and the intended use of the plan. A plan designed to borrow money would most probably be different than a plan for internal use only.

The following outline provides an insight into some of the areas which may be addressed. Areas which are not pertinent should not be included. Critical or important factors which are not listed should be included. Remember your plan is unique.

1. <u>The Business Objectives and Goals</u>.

   A. Why are you going into this business?

   B. What do you want to get out of the business?
      1. Profitability – expectations.
      2. Size – sales, employees, market share, etc.
      3. Return on time invested.
      4. Return on money invested.
      5. Flexibility – hours worked, schedule, etc.
      6. Risk minimization.

   C. How will you measure success, or failure, in what time frame? Do you want to gain a certain percentage of the market by a particular date? Or, do you want to reach a particular sales volume or net profit figure by year-end?

2. <u>Analyze the Market</u>.

   A. What business are you really in?
      1. Why is there a need for this product or service?
      2. Who actually buys it?

   B. What is the present state of the industry?
      1. How is the need for the product or service changing?
      2. What is happening to other businesses in the industry?
      3. Analyze information from trade associations, libraries and other businesses.

   C. What uncontrollable influence will affect your business/industry?
      1. What licenses and regulations will affect your business/industry?
      2. Economic conditions.
      3. Social and cultural change.
      4. Technology.
      5. Competition.

   D. What will be your portion of the total market?
      1. Who will actually buy from you?
         a. by geographic area?
         b. by business type?
         c. income group?
         d. customer life style?
         e. age group?
         f. use of product or service?
         g. other?
      2. Why will this market buy from you?
      3. Can you estimate annual sales? 1st year, 2nd year?
      4. Why is this achievable?

3. Describe Your Business.

   A. How will your product fit the market?
      1. What makes your business unique?
      2. What will you name your business/product? Why?
      3. Explain how your business/product will specifically satisfy customer wants and needs.

   B. How will you set prices?
      1. Based on competition, costs, or what the market expects?
      2. Will you offer discounts? To whom?
      3. What will be your credit and collection policy?

   C. How will you promote and sell your product or service?
      1. How will you tell your customers about your business?
      2. Will you advertise? Where, when, how much?
      3. Who will be responsible for sales?

   D. What are the physical aspects of your business?
      1. Where will you locate? Why?
      2. Who will be your major suppliers? What are their terms?
      3. How will you distribute? What are the strengths and weaknesses of each distribution method?

4. Financial Data.

   A. Project a statement of income and expense.

   B. Determine the financial requirements to get the business started.
      1. List all permanent assets required and the value or cost to obtain each.
         a. inventory
         b. equipment
         c. leasehold improvements
         d. automotive or trucks
         e. fixtures
         f. building
         g. prepaids
         h. etc.
      2. Determine the working capital needs (cash), to get the business self-supporting.
         a. estimate one time start-up expenses (non-asset).
         b. estimate monthly revenues and disbursements (cash flow) until the time that the business is self-supporting.
         c. estimate contingency fund-safety factors.
         d. total cash needs will equal the highest cumulative negative cash balance in b., plus a. and c. above.

Or:

	start-up expenses
+	largest cumulative cash operating deficit
+	contingency fund _____
=	cash needs

C. List the money and/or value of assets you intend to invest in the business (owner's equity).

D. Project your financing needs:

	Value of permanent assets
+	Working Capital _____
=	Total funds needed
-	Your investment _____
=	Total financing required.

5. Summarize Operations and Management.

A. Who will do what? Write major job descriptions.

B. What will be your form of legal organization?

C. What are your accounting needs? What records will you keep?

D. What are your insurance needs and how much?

E. Identify your major strengths and weaknesses.

If you are trying to attract investors or borrowing money, you might want to attach a summary sheet to the beginning of the plan, stating purpose of funds, what these funds will enable the company to achieve, as well as how the investor or lender will benefit.

"People don't plan to fail, they just fail to plan"

E.D. 103 DEVELOPMENT: A BIRD'S EYE VIEW

BUSINESS PLAN CHECKLIST

OPERATIONAL CONSIDERATIONS

1) WHAT IS THE PRODUCT?

- Why is it unique and appealing?
- What will cause consumers to shift from what they now purchase to this product?
- Can this product be priced so that it can make a profit for the company?

2) WHAT RAW MATERIALS WILL BE USED IN PRODUCTION?

- What quantities need to be purchased on a monthly basis?
- What companies/entities will supply the raw materials to the company?
  - Names of contacts?
  - Has credit been established? How much?
  - Terms of payment to suppliers?
  - Delivery capability?

3) HOW WILL THE PRODUCT BE MANUFACTURED?

- What machinery and infrastructure will be used?
  - What type of support systems will be needed to make the M & E functional? (e.g., Utilities, Installation, Sewers, etc.)
- Who will operate the M & E
  - How many people are necessary in the production process?
  - Pay scales?
  - Training/skills necessary?
  - Who are these people?
  - Why will they join the company?
  - What benefits will be offered?
  - Will the workforce be unionized?
  - Who will help the company find employees?
- What kind of supervisory staff will be necessary?
  - How many people?
  - Pay scales?
  - Training/skills?
  - Why will they join the company?
  - Benefits, etc.?

4) COSTING AND PRICING THE PRODUCT

- What will be the raw material cost? ($ per unit of raw material)
  - How much shrinkage will occur?
  - What will be the raw material cost per unit of finished goods?
- What will be the labor cost?
  - What will be the direct labor cost (including benefits) per unit of finished good?
- What will overhead cost?
  - How much are the basic monthly expenses of the company including supervisory personnel; selling & back office & delivery staff, rent, utilities, other fringe benefits, etc.?
  - In other words, how much are the monthly fixed costs?
- How will the products be priced?
  - What will be the mark-up above variable costs (raw materials and direct labor)?
- What is the company's breakeven point?
  - $ sales per month?
  - # units per month?
- What is the price of the competition's product?

5) MARKETING AND SELLING

- How big is the company's market?
  - Geographic?
  - Dollars?
- Who are the company's customers?
  - Names/contacts?
- Where are they located?
- Why do they want to buy this product?
- How will the company market to them?
- What types of advertising will be used?
  - Cost per month?
  - Why will it be effective?
- On what terms will the company sell its product?
  - COD vs. 30 days, etc.?
  - Discounts offered?
  - What are the competition's terms?

- Who will sell the product?
  - Names?
  - Number of sales people?
  - Pay and fringe and incentives?
  - Experience?
  - Where has their ability to sell been demonstrated?

6) DELIVERY AND DISTRIBUTION

- How big (geographically) is the company's market?

- How will it be serviced?
  - Direct sales?
  - Regional Warehouses?
  - Through distributors (who are they)?

- How will the product be delivered?
  - Truck/rail/air?
  - Freight weights and costs per delivery?

- Minimum orders required?

- Delivery turnaround time?

7) COLLECTION

- Who will collect receivables?

- Collection policy?

- Credit policy?

- Role of salesperson?

- Accounts receivable clerk?
  - Who?
  - Pay?
  - Experience?

FINANCIAL CONSIDERATIONS

1) HOW MUCH CAPITAL IS NEEDED?

- Pre-opening expenses?

- Production machinery and equipment?

- Delivery equipment and vehicles?

- Administration furniture/equipment?

- Renovations and improvements to building?

- Acquisition/construction costs?
- Working capital to carry receivables and inventory?

2) WHAT ARE THE SOURCES OF THE CAPITAL?

- Equity: Amount and investors relationship to company?
- Loans: Amount and terms?
- Credit from suppliers/others?

3) WHAT WILL OPENING BALANCE SHEET OF COMPANY LOOK LIKE?

4) WHAT WILL THE FIRST YEAR'S P & L LOOK LIKE (MONTHLY)?

MANAGEMENT AND ADMINISTRATION CONSIDERATIONS

1) WHO IS THE ENTREPRENEUR?

- Why will he/she be successful?
- What are his/her strengths/weaknesses?
- Can he/she have experience/skills in:
  - Purchasing raw materials?
  - Producing product?
  - Pricing product?
  - Selling?
  - Collection?

2) WHO IS THE MANAGEMENT TEAM?

- Name?
- Pay and fringe?
- Why will they work with the company?
- Why were they selected?
- What relevant expertise do they bring to the company?
- Describe the chain of command!

THE BUSINESS PLAN:

Your Road Map for Success

WHAT IS A BUSINESS PLAN?

- A strategic vision of your company
- A document to obtain working capital and/or investments
- A tool for measuring and improving performance
- A basis for sound decision-making
- A way to ensure that partnerships last
- A way to motivate employees

NOTES:

THREE BASIC THINGS A BUSINESS PLAN MUST PROVIDE

- Evidence of focus – what one thing (or several things) do you do exceptionally well?

- Understanding of who your target customers are.

- An appreciation of investor or lender needs.

NOTES:

THE PLANNING PROCESS

A. Set goals and objectives.

B. Develop operating plans.

C. Develop financials.

D. Write the business plan document itself.

THE EXECUTIVE SUMMARY

The Mission Statement

- Date business began
- Names of founders and the functions they perform
- Number of employees
- Location of business and any branches
- Description of plant or facilities
- Products or Services
- Banking relationships and information regarding investors
- Summary of Company growth, including financial growth
- Summary of Management's future plans

ORGANIZATION & STAFFING
(Develop an Organizational Chart)

MANAGEMENT

- Name
- Age
- Position
- Education
- Special skills
- Prior-employment
- Number of years with the company
- Past track record
- Industry recognition
- Community involvement

MARKETING

Product/Service

- Listing of your company's services or products
  Attach any marketing/promotional material

- Details regarding
  - suppliers
  - availability
  - purchasing department

- Information addressing new services or products to be added

- Methods of promotion

NOTES:

IMPACT OF ECONOMIC CONDITIONS

- State of the economy
- Condition of your industry and industry prospects
- New technologies
- Labor market/labor union influence
- Impact of local and foreign competition
- Other relevant demographics such as changing customer profiles

NOTES:

FINANCIALS

- Income Statement
- Balance Sheet
- Cashflow Statement

NOTES:

HOW TO CREATE YOUR BUSINESS PLAN

By Jeff Richmond

Circumvent failure with a specific blueprint for success

No matter how you start, you expect your business to succeed and grow. However, relatively few people who start their own businesses know how to handle success or growth.

To understand success, it is a good idea to look at failures. According to a recent survey published by the Derson Group, Ltd., in Glastonbury, Connecticut, 72 percent of new businesses that fail are the result of inadequate management. Even potentially thriving businesses, owned and operated by a single individual, failed because of management problems.

Management is not necessarily directing the activities of employees. It also involves the proper distribution of an individual's activities, responding appropriately to the business environment, and managing time. Few people are born managers, but fortunately, the tools for effective management of a small business are easy to acquire. In this first of a series of articles on improving the chances of your new business success we cover the first essential element: creating the business plan.

Properly completed, a business plan will provide the guidance needed to handle routine business details, as well as the businesses' direction for the future. One caution about business plans must be emphasized. The successful business plan must be developed from an unemotional, objective viewpoint, and the more complete it is, the greater the chance you will have of succeeding in your new business. The purposes of a business plan are described below.

OBJECTIVE ANALYSIS

The complete business plan is the result of a careful and thorough thought process. It answers common questions before the answers are needed. Your plan should tell you what the next step is, and how to expand your business. Finances will be accounted for, and records will support your quest for expansion financing. Most importantly your business goals will be achieved.

- **Your business**– The business plan begins with a clear, concise description of your business objectives. Essentially, it is a statement defining how you are going to make money. This portion of the plan should be succinct, but complete enough so that anyone reading it will know what you intend to do, and why it is likely to succeed.

- **Your markets**– The analysis will raise some nagging questions. How does your business fill a need in the market? What is the size of the total market? What is likely to be your share of that market, and how was this determined? What is unique about your product or service that gives it an edge in the market?

- **Your competition**– Do you have any competition, and how will that affect your business? What advantages do you have over the competition in your market? What advantages does the competition have, and how will you offset these advantages? If others have entered this market, why have they succeeded or failed?

- **Your location**– Does location play a role in the success of your business, and if so, how? How will you select a location, or why is the location you have chosen suitable?

- **Your management**– Who will manage your business? If more than one person is involved, how will duties and responsibilities be divided? Who makes the final decision when required? What outside services, such as accounting, legal services, or marketing consultants, will be needed to assist management?

- **Your staff**– Are individuals competent to perform needed jobs? Will individuals in positions of responsibility be able to stand up to credit, personal, and professional investigations that may be conducted by a bank?

- **Use of funds**– Whether you go to a bank or a rich uncle, your source of financial support will want a detailed plan of how the money will be used. This will require a breakdown of equipment, salaries, rents, utilities, raw materials, and/or advertising.

FINANCIAL INFORMATION

Financial data is important for more than just obtaining a loan. It is part of your objective analysis. It will determine how much business you must conduct in order to make an acceptable profit. It will identify expenses that might have been overlooked, or make it clear that equipment and services that you initially thought were essential will have to be postponed. An important function of the financial planning is that it gives you a standard by which to measure your success. Comparing expenses, income, and profits to the plan will quickly allow you to identify success, or the need to overhaul the plan.

Some essential parts of the financial portion of the business plan are:

- **Financial sources**–Almost any business will require initial funding, even if it is just for paper to write a letter. Financial sources refer not only to banks and investors, but also to your personal bank account.

- **Equipment list**–Do you have the necessary equipment to carry your business through the initial stages of your plan, and if not, what will be needed? Note that "essential" is the operative word, and is not the same as "ideal." Obtain only the equipment necessary to accomplish the initial goals of your business plan. For example, a coy machine may be useful, but is it essential? Can you go to a print shop or library for copies instead?

- **Balance sheet**–Complete a balance sheet showing assets and liabilities. You will probably be surprised at your own net worth. Properly completed, the balance sheet will prevent early financial disasters, and if it is maintained on a regular basis, will identify financial success or potential trouble areas.

- **Break even analysis**–Compare the cost of doing business with the gross receipts. There should be money left over after expenses, including your salary, are accounted for, or you are not making a profit.

- **Cash flow analysis**–On a month-by-month basis for at least a three-year period, determine all expenses, both known and projected, as well as all income that is projected. After two to three years, there should be a steady increase in the profits.

SUMMARY

The business plan is a living document. It should be consulted frequently to ensure that your business plans stay on track. It should also be reviewed, and revised as necessary, on a regular basis.

A business plan can be three pages or 300 pages. It is not the length that counts, but the thought that goes into the plan. If you have difficulty developing a business plan, refer to one or two of the resources indicated below, or contact an individual who can assist you. Business and management consultants are usually listed in the *Yellow Pages*.

In the world of fast paced business, the only truly winning business plan is the one that raises financing without collateral. It sells you and your business. It shows that you have the ability and understanding to make your business work. It also provides a clear road map to success, and this is an important function of the business plan, even if you do not seek venture capital, partnerships, or bank financing. If you have answered all of the questions above, the only question left unanswered now is how soon will it succeed.

RESOURCES

THE BUSINESS PLANNING GUIDE by David H. Bangs, Jr. Upstart Publishing Co., Dept. 10-12, 12 Portland St., Dover, NH 03820; $16.95.

HOW TO PREPARE A BUSINESS PLAN THAT GUARANTEES BIG PROFITS. E.A. Morgan Publishing Co., Dept 10-12, P.O. Box 1375, Huntington, NY 11743; $4.00.

HOW TO WRITE A BUSINESS PLAN by Joseph R. Mancuso. Prentice Hall Press, New York, NY.

BUILDING YOUR BUSINESS PLAN, STEP BY STEP APPROACH by Harold J. McLaughlin. Ronald Press.

Note: The Derson Group, Ltd., referred to in the text is a consulting firm providing workshops and seminars for those interested in starting a new business or changing careers. They serve as consultants to large companies, providing service to employees who have retired or have been laid off. They do not generally offer services on an individual basis.

THE BUSINESS PLAN

1. Name of Firm
2. Owner or Owner-to-be
3. Information on the Business
   a. Type of Business & Product or Service
      Company goals and objectives.
      Description of products and/or services.
      Describe how product or service will be sold.
      Comment on quality.
      Estimate average price of product/service.

   b. History
      If new, say so.
      If existing, age of business, prior customers, how acquired and length of time operated by you.

   c. Offices/Plant
      Give address and description of area.
      State whether rented, leased or owned.
      Describe type of access to location.
      State business hours.
      Describe location.

   d. Personnel
      Present and future number of employees, labor type sources of labor.
      Comment on quality of staff.

   e. Economic/Accounting
      Describe how this business makes money.
      State how prices are determined and who determines them.
      State what financial records will be kept and by whom.

   f. Inventory
      What type of inventory, raw materials, supplies, etc.
      List your suppliers, names and addresses and length of time you have been buying from them.
      Describe ease or difficulty in getting necessary supplies.

   g. Legal
      State legal form of business.
      State licensing requirements.
      State zoning requirements and status.
      Describe any other laws and regulations that affect business.

4. Market Analysis
   a. Customers (Market)
      Describe your market.
      Show how this market needs your particular service/product.
      List the characteristics of your average customer.
      Determine what your customers like and dislike about your product/service.
      Estimate the size of your market.

   b. Environment
      Discuss any environmental factors, legal, social, or technological that affect your product.

   c. Competition
      Discuss your competition: number of competitors, type of company, location, age of customers.
      List competitors and discuss their product, image price, location, size, quality and marketing strategy.

   d. Competitive Advantages & Disadvantages
      Discuss how your product/service meets market needs.

   e. Projections

5. Market Strategy
   a. Sales Strategy
      Present your marketing strategy.
      Tell your 'action plan'.

   b. Promotion Strategy
      Describe how you plan to promote your product/service.
      Will you advertise in radio, paper, mailer, etc.

6. Management

   Describe prior experience that qualifies management to run this type of business.
   State time you will devote to business.

7. Financial
   a. Sources and Users
      Describe the project to be financed.
      List sources of money for the project and show in detail how it will be used.

   b. Statements – Historical and Projected
      If existing, attach business tax returns and financial statements for the last three years.
      Balance sheet.
      Income Statement.
      Accounts Receivable & Aging.
      Accounts Payable & Aging.
      Debt Schedule.
      Reconciliation of Net Worth.
      Operating.

Business Plan Checklist

A well-prepared business plan serves several purposes:

- It helps the owner of a new business determine the feasibility and desirability of pursuing the steps necessary to start a business.
- It is an important sales tool for raising capital from outside investors.
- It forms the basis of a more detailed operational plan and becomes an important management tool for monitoring the growth of the firm and charting future directions.

Following is a general approach that you can use as a foundation. However, you should tailor your plan to meet the specific circumstances of your business, emphasizing its strengths and addressing the potential problems and challenges to be faced.

Summary

The summary should concisely describe the key elements of the business plan. For the firm seeking financing, the summary should convince the lender or venture capitalist that it is worthwhile to review the plan in detail. The summary should briefly cover at least the following:

- Name of the business;
- Business location and floor plan description;
- Discussion of the product, market and competition;
- Expertise of the management team;
- Summary of financial projections;
- Amount of financial assistance requested (if applicable);
- Form of and purpose for the financial assistance (if applicable);
- Purpose for undertaking the project (if financial assistance is sought);
- Business goals.

The Company

This section provides background information on the company and usually includes:

- A general description of the business, including the product or service;
- Historical development of the business, including:
  - Name, date and place (state) of formation;
  - Legal structure (proprietorship, partnership, corporation);
  - Significant changes, including dates, in ownership, structure, new products or lines, acquisitions;
  - Subsidiaries and degree of ownership, including minority interests;
  - Principals and the roles they played in the formation of the company.

The Product of Service

Describe the present or planned product or service lines, including:

- Relative importance of each product or service including sales projections, if possible;
- Product evaluation (use, quality, performance);
- Comparison to competitors' products or services and competitive advantages over other producers;
- Demand for product or service and factors affecting demand other than price.

The Project

If financing is sought for a specific project, describe the project, the purpose for which it is undertaken, its cost and the amount, form and use of the financial assistance.

Management

- Organizational chart;
- Key individuals (include supervisory personnel with special value to the organization);
  - Responsibilities;
  - Personnel resumes (describing skills and experience as they relate to activities of the business);
  - Present salaries (include other compensation such as stock options, bonuses);
  - Planned staff additions.
- Other employees:
  - Number of employees at year end, total payroll expenses for each of previous five years (if applicable) broken down by wages, benefits;
  - Method of compensation;
  - Departmental/divisional breakdown of work force.
- Planned staff additions.

Ownership

- Names, addresses, business affiliations of principal holders of subject's common stock and other types of equity securities (include details on holdings);
- Degree to which principal holders are involved in management;
- Principal non-management holders;
- Names of board of directors, areas of expertise and role of board when business is operational;
- Amount of stock currently authorized and issued.

Marketing Strategy/Market Analysis

- Description of the industry. Include:
  - Current description of industry;
  - Industry outlook;
  - Principal markets (commercial/industrial, consumer, government, international);
  - Industry size – current as well as anticipated in the next 10 years (explain sources of projections);
  - Major characteristics of the industry. Effects of major social, economic, technological or regulatory trends on the industry.
- Description of major customers. Include:
  - Names, locations, products or services sold to each;
  - Percentage of annual sales volume for each customer over previous five years (if applicable);
  - Duration and condition of contracts in place.
- Description of market and its major segments. Include:
  - Principal market participants and their performance;
  - Target market;
  - Customer requirements and ways for filling those requirements;
  - Buying habits of customers and impact on customers using your product or service.
- Description of competition: companies with which your business competes and how your business compares with these companies. This section is a more detailed narrative than that contained in the description of the product or service, above.
- Description of prospective customers. Include reaction to your firm and any of its products of services they have seen or tested.
- Description of firm's marketing activities. Include:
  - Overall marketing strategy;
  - Pricing policy;
  - Method of selling, distributing and servicing the product;
  - Geographic penetration, field/product support, advertising, public relations and promotion and priorities among these activities.
- Description of selling activities. Include method for identifying prospective customers and how and in what order you will contact the relevant decision-makers. Also describe your sales effort – sales channels and terms, number of salespersons, number of sales contacts, anticipated time, initial order size – and estimated sales and market share.

Technology

- Describe technical status of your product – idea stage, development stage, prototype – and the relevant activities, milestones and other steps necessary to bring the product into production.
- Present patent or copyright position (if applicable). Include how much is patented and how much can be patented (how comprehensive and effective the patents or copyrights will be). Include a list of patents, or copyrights, licenses or statements of proprietary interest in the product or product line.
- Describe new technologies that may become practical in the next five years that may affect the product.
- Describe new products (derived from first generation products) the firm plans to develop to meet changing needs.
- Describe regulatory or approval requirements and status, and discuss any other technical and legal considerations that may be relevant to the technological development of the product.
- Describe research and development efforts and future plans for research and development.

Production/Operating Plan

- Explain how the firm will perform production or delivery of service. Describe in terms of:
  - Physical facilities – owned or leased, size and location, expansion capabilities, types and quantities of equipment needed. Include a facilities plan and description of planned capital improvements (if any) and timetable for those improvements.
  - Suppliers: name and location, length of lead time required, usual terms of purchase, contracts (amounts, duration and condition) and subcontractors.

    Labor supply (current and planned): number of employees, unionization, stability (seasonal or cyclical) and fringe benefits.

- Technologies/skills required to develop and manufacture the products.
- Cost breakdown for materials, labor and manufacturing overhead for each product, plus cost versus volume curves for each product or service.
- Manufacturing process.

- Describe production or operating advantages of the firm; discuss whether they are expected to continue.
- Specify standard product costs at different volume levels.
- Present a schedule of work for the next one to two years.

Financial

- Auditor: name, address;
- Legal counsel: name, address;
- Banker: name, location, contact officer;
- Controls: cost system used and budgets used;
- Describe cash requirements, now and over next five years, and how these funds will be used;
- Amount to be raised from debt and amount from equity;
- Plans to "go public" – relate this to future value and liquidity of investments;
- Financial statements and projections for next five years:
  - Profit and loss of income statements by month until break even, and then by quarter;
  - Balance sheets as of the end of each year;
  - Cash budgets and cash flow projections;
  - Capital budgets for equipment and other capital acquisitions;
  - Manufacturing/shipping plan.

If financing is sought, most lenders and venture capitalists will require:

- A funding request indicating the desired financing, capitalization, use of funds and future financing;
- Financial statements for the past three years, if applicable;
- Current financial statements;
- Monthly cash flow financial projection including the proposed financing, for two years;
- Projected balance sheets, income statement and statement of changes in financial position for two years including, the proposed financing.

BUSINESS PLAN

FOR

(NAME OF BUSINESS)

NAME OF OWNER(S), TITLE(S)
STREET ADDRESS
CITY. STATE, ZIP CODE
TELEPHONE NUMBER

DATE PRESENTED

SUMMARY

Summarize Description of the Business

- Name, address of business
- Type of business
- Product/Service
- Name(s) of owner(s)
- Amount and purpose of financing

Summarize Marketing Plan

- Potential market
- How will business attract customers
- Competition
- Selling methods

Summarize Organization Plan

- Management personnel/Qualifications
- Legal structures

SECTION I: DESCRIPTION OF BUSINESS

PURPOSE

Identify Purposes of the Business Plan

- Who will use the business plan?
- What is the business plan to accomplish?

Define Overall Purposes of the Business

- What are the main personal purposes of the business?
- What are the main business purposes of this business?

List Specific Goals of the Business

- What are the goals for:

  Growth in sales volume?

  Profit before taxes?

  Personal compensation?

  Personal time commitment?

  Personal growth/Education?

  Other?

BACKGROUND

Describe Background of the Industry

- How has the industry developed?
- What has been the industry's growth?
- What is the industry's future?

Define Role of Small Business in the Industry

- How well do small businesses prosper in the industry?
- How well does the business fit in the industry?

Describe Background of the Existing Business

- When founded?
- Why started?
- Who started?
- Has the business been successful?
- What are the key points of business growth?
- What are the profitability patterns?
- How have the business goals changed over time?

PRODUCTS

Identify Products Offered for Sale

- What products does the business sell?
- Who are the key product suppliers?
- What makes the products offered unique?
- What will customers buy from the business?

Define Product Economics

- What prices will the business charge?
- What costs are associated with the product prices?
- How profitable and competitive are the product prices?
- What levels of inventory will the business require?

SERVICES

Identify Services Offered for Sale

- What services does the business provide?
- What problems do the services solve?
- What makes the services unique?

Define Service Economics

- What prices will the business charge?
- What costs are associated with service and prices?
- Will the services be profitable and competitively priced?

SUCCESS FACTORS

Identify Reasons for Potential Success

- What is new about your business?
- Why is your idea better than others?
- What are the expected benefits?

Risks

- What factors may keep you from starting the business?
- What unpredictable risks must you watch for?

SECTION II: MARKETING PLAN

CUSTOMERS

Define Customers

- If business:

  What industry?
  How many employees?
  What minimum purchase?
  What annual sales volume?
  What age of business?

- If general public:

  What marital status?
  What religion?
  What age range?
  What leisure activities?
  What income level?
  What sex?
  What race?

Determine Customer Location

- What distance customer willing to travel?
- What distance seller willing to travel?

Define Customer Buying Behavior

- How many customers are in the geographic target market?
- How many customers will purchase from the business and its competitors?
- What percentage of purchasers will buy from the business?
- How many purchasers will buy from the business?

Determine Customer Sales Per Year

- How many purchases will average customer make per year?
- How much will average customer spend for each purchase?
- How much will average customer spend per year?
- What is expected annual sales volume?

COMPETITION

Describe Major Competitors

- Name, Address, Telephone

Compare the Business to Its Major Competition

- Image – What are both the physical appearance and the reputation in community?
- Location – How convenient for customer access? (distance, traffic, parking, visibility)
- Layout – How well does floor space serve customers?
- Atmosphere – Are the feelings evoked in customers appropriate for type of business?
- Products – How complete are product lines and name brands in store?
- Services – What are the quantity and quality of services offered?
- Pricing – If all else is equal, how compare on prices?
- Advertising – Do advertising media used reach target market?
- Sales Methods – What selling techniques used once customer is on site?

List Changes Planned to Improve Competitive Position

- Image
- Location
- Layout
- Atmosphere
- Products
- Services
- Pricing
- Advertising
- Sales Methods

MARKETING STRATEGY

Describe Promotional Strategy

- What advertising media will be used?
- What days of week will various media be used?
- What media will be used during various seasons of the year?
- How will merchandise be displayed?

Define Pricing Strategy

- How are prices calculated for each product/service?
- What factors are included in setting prices?
- Which product/service sales are price sensitive?
- Which products/services attract customers at sale (reduced/discount) prices?
- How important is pricing to overall marketing strategy?
- What time of year will sales pricing be important?
- What discount policies will the business follow?
- What pricing policy will be used for "slow movers"?

Outline Customer Service

- What special services will be offered?
- What types of payment options will the business offer?
- How will the business handle "returns"?

Selling Methods

- What selling methods will be used?
- What selling methods will be used during various seasons of the year?
- Who will direct/coordinate the various selling methods?
- Will the business provide sales training for the sales force?

SECTION III: OPERATIONAL PLAN

LOCATION

Describe Location

- What is the address of the business?
- What features make the location attractive?
- What nearby business will help attract customers?

Determine Future Needs

- What renovations will be needed and at what cost?
- What are the prospects for business growth?

Identify Occupancy Costs of Location

- What are the terms of lease/purchase?
- What are the annual costs?
  - Rent or mortgage
  - Property taxes
  - Maintenance and repairs
  - Insurance
  - Utilities
  - Other costs
  - Total annual costs
  - Total annual cost per square food

Determine Layout

- What is the best layout for the business?
- How much space will you need?
- How will you organize the work flow?

SUPPLIERS

Equipment

- What equipment will you need?
- Where are the potential suppliers?
- Will you buy or lease?

Merchandise/Raw Materials

- What products will you sell?
- How will you find suppliers?
- How will you choose the best suppliers?

Supplies (not for sale)

- What operating supplies are needed?
- How will you find supplies?
- How will you choose the best supplies?

PRODUCTION PROCESS

Production

- How will you produce the product?
- What technology options do you have?
- How will you organize production?
- What different activities in the business operation must be planned?

Inventory

- How much inventory should be in stock? How does the cost affect this?
- How will you know when to order?
- How can you protect your inventory?

Shipping

- What delivery systems will you use?
- How will you package the shipment?

HUMAN RESOURCES

Identify Needed Employees

- How many employees does the business have?
- What are the job titles and skills needed by employees?
- Who will supervise employees?

Describe Sources of Employees

- How will needed employees be obtained?
- What problems will hinder finding competent employees?
- What training is available for employees?

List Costs of Employees

- What are the base wages/salaries?
- What will required benefits cost?
  - Social Security contributions
  - Federal and state unemployment taxes
  - Workers compensation insurance

- What will optional benefits cost?
  - Medical/dental insurance
  - Life/disability
  - Pension/profit sharing plan

Determine When to Develop Needed Written Policies

- When will written job description be completed?

- When will written personnel manual be completed?

SECTION IV: MANAGEMENT

ORGANIZATIONAL STRUCTURE

Identify Owners and Key Employees

- What form of business does the business have/
- Who are owners and what are their titles?
- Who are key employees and what are their titles?
- When have these persons previously worked together?

Outline Qualifications of Each Owner/Key Employee

- What are their most important duties?
- What is their previous business experience?
- What is their educational background?
- What are their personal interests?
- Who are used as their references?
- What will be their compensation (Year 1–30)

Organizational Chart

- Who is responsible for which activities in the business?
- Who reports to whom?

BUSINESS ADVISORS

Identify Outside Consultants/Advisors

- Who is the accountant?
- Who is the attorney?
- Who is the banker?
- Who are other key outsiders?

Describe Special Services/Assistance Provided

- Accountants/Taxes
- Planning
- Organizing
- Financial management
- People management
- Time management
- Personal selling
- Promotion
- Decision-making
- Cost control
- Personnel policies
- Pricing

RECORDS

Describe Accounting/Bookkeeping System

- Who will be responsible for maintaining all business records?
- What accounting procedures will apply?
  - Cash v. Accrual
  - Double entry v. "One-write"
- What 12-month period will serve as the fiscal year?
- Who will prepare the financial statements?
- How often will financial reports be prepared? Be received? Be audited?

LEGAL ISSUES

Identify the Form of Business

- What legal structure will the business use?
- What advantages does the selected legal form bring to the business? (versus other legal forms)
- Who are the officers (if any)?

Discuss Required Licenses, Permits or Regulations

- What licenses or permits are required for the business?
- How/when will needed licenses/permits be obtained?
- What regulations affect the business?
- Who/how will compliance be monitored?

RISK MANAGEMENT

Types of Risk

- What are your market centered risks?
- What are your property centered risks?
- What are your employee centered risks?
- What are customer centered risks?

Controlling Risks

- What policies can you make to control risks?
- What insurance will you buy to control risk?
- What other ways are there to control risks?
- What risks can't you control?

SECTION V: FINANCIAL PLAN

FINANCIAL PLAN

Prepare and Explain the "Sources and Applications of Financing" Report

- How much money is needed to operate the business successfully?
- For what uses will the needed financing be applied?
- What positive effect will the requested financing ensure?
- What terms and conditions are sought for the needed financing?
- What assets are available to secure outside financing?
- How and when will outside financing be liquidated?

SUPPORTING FINANCIAL DOCUMENTS

1. Personal balance sheet
2. Capital equipment list
3. Beginning balance sheet
4. Break-even analysis
5. Annual projected income statement plus explanatory notes
6. Monthly projected income statement plus explanatory notes
7. Monthly and quarterly cash flow projections plus explanatory notes

ENTREPRENEUR FEASIBILITY QUESTIONNAIRE

ENTREPRENEUR _____

BUSINESS NAME _____

BRIEFLY DESCRIBE THE BUSINESS YOU WANT TO ENTER, INCLUDING THE PRODUCTS OR SERVICES YOU WISH TO SELL.

_____

_____

_____

_____

_____

DO YOU HAVE THE TECHNICAL SKILLS NECESSARY TO CARRY ON YOUR BUSINESS? WHAT IS YOUR EXPERIENCE IN THIS TYPE OF BUSINESS?

_____

_____

_____

_____

_____

_____

_____

_____

WHY DO YOU WANT TO BE IN THIS BUSINESS?

_____

_____

_____

_____

MARKET DESCRIPTION

CUSTOMERS:

1. DESCRIBE WHO WILL USE YOUR PRODUCTS OR SERVICES.

_____
_____
_____
_____

2. DEFINE THE GEOGRAPHICAL AREAS FROM WHICH YOU CAN REALISTICALLY EXPECT TO DRAW CUSTOMERS.

_____
_____
_____

3. WHAT IS THE POPULATION OF THESE AREAS?

_____
_____
_____

4. IS THERE A POPULATION GROWTH IN THESE AREAS?

_____
_____

5. WHAT AGES WILL YOU BE CATERING TO?

_____

6. HOW MANY OF THIS AGE GROUP ARE IN YOUR MARKET AREA?

_____
_____

7. WHAT INCOME BRACKET WILL YOU BE CATERING TO?

_____

8. HOW MANY OF THIS INCOME BRACKET ARE IN YOUR MARKET AREA?

_____
_____

9. IS THERE A REAL DEMAND FOR YOUR PRODUCT OR SERVICE IN YOUR MARKET AREA? HOW DO YOU KNOW THIS?

10. BASED ON THE ABOVE INFORMATION, DO YOU BELIEVE YOUR BUSINESS WILL APPEAL TO A LARGE ENOUGH MARKET TO BE PROFITABLE?

11. ARE THERE OTHER CHARACTERISTICS OF YOUR POTENTIAL CUSTOMERS THAT AFFECTS THEIR BUYING HABITS?

COMPETITION

1. WHO ARE YOUR MAJOR COMPETITORS?

2. IS THE COMPETITION STRONG IN YOUR MARKET ARE?

3. HAVE ANY FIRMS OF YOUR TYPE GONE OUT OF BUSINESS LATELY? IF SO, WHY?

_____
_____
_____

4. WILL YOU BE ABLE TO COMPETE SUCCESSFULLY?

_____
_____
_____

5. WHAT ARE THE STRENGTHS AND WEAKNESSES OF YOUR COMPETITION?

_____
_____
_____

SUPPLIERS

1. DO YOU KNOW ANY POTENTIAL SUPPLIERS FOR THE INVENTORY NEEDS OF YOUR BUSINESS? WHO ARE THEY?

_____
_____
_____
_____

2. DO ANY OF THEM HAVE ANY SPECIAL WEAKNESSES OR STRENGTHS? IF SO, WHAT?

_____
_____
_____
_____

MARKET PLAN

1. WHAT METHOD WILL YOU USE TO SELL YOUR PRODUCT OR SERVICES?

_____
_____
_____

2. HOW WILL YOU ADVERTISE YOUR PRODUCTS OR SERVICES?

_____
_____
_____

3. HOW WILL YOU PROMOTE YOUR PRODUCTS?

_____
_____
_____

4. WHY WILL YOUR CUSTOMERS BUY FROM YOU?

_____
_____
_____

5. DO YOU PLAN TO EMPHASIZE PRICE OR QUALITY? BOTH?

_____
_____
_____

6. DO YOU PLAN ANY SPECIAL SERVICES IN YOUR BUSINESS SUCH AS FREE DELIVERY, SPECIAL DISCOUNTS, ETC.?

_____
_____
_____

7. WHAT IMAGE DO YOU WANT YOUR CUSTOMERS TO HAVE OF YOUR BUSINESS?

_____
_____
_____

8. WHAT PRICES WILL YOU SET FOR YOUR PRODUCTS AND SERVICES? WHY?

_____
_____
_____

FINANCIAL PLAN

1. HOW MUCH MONEY WILL IT TAKE TO GET YOUR BUSINESS STARTED?

_____

_____

_____

2. HOW DO YOU PROPOSE TO FINANCE THIS AMOUNT?

_____

_____

3. WHAT IS YOUR PROJECTED REVENUE FOR THE FIRST YEAR?

_____

_____

4. WHAT ARE YOUR EXPECTED OPERATING COSTS?

   - A CASH FLOW PROJECTION SHOULD BE ATTACHED TO THIS QUESTIONNAIRE. _____
   - AN INCOME PROJECTION SHOULD BE ATTACHED TO THIS QUESTIONNAIRE. _____

5. WHAT OTHER FINANCIAL INFORMATION DO YOU HAVE ATTACHED TO THIS QUESTIONNAIRE?

_____

_____

6. DOES THE ABOVE INFORMATION CLEARLY SHOW HOW MUCH MONEY IT IS GOING TO TAKE TO OPERATE YOUR BUSINESS AND ALSO MAKE AN ACCEPTABLE PROFIT FOR YOU?

_____

_____

_____

7. HOW DO YOU PLAN TO FIND OUT ABOUT YOUR TAX LIABILITIES?

_____

_____

_____

8. HOW DO YOU PLAN TO FIND OUT ABOUT YOUR BOOKKEEPING/ RECORDKEEPING NEEDS?

_____

_____

_____

PRODUCTION ORGANIZATION

1. WHAT EQUIPMENT WILL YOU NEED?

_____

_____

_____

2. HOW WILL YOU ORGANIZE PRODUCTION PROCESS AND WHAT AREA WILL IT USE?

_____

_____

_____

ORGANIZATIONAL PLAN

1. WILL YOU HAVE EMPLOYEES? HOW MANY?

_____

_____

2. WHO WILL BE RESPONSIBLE FOR:

SELLING _____

BUYING _____

RECORDKEEPING _____

PRODUCTION/OPERATIONS _____

ADVERTISING/PROMOTIONS _____

PRICING _____

CLERICAL WORK _____

BUSINESS LOCATION

1. WHAT KIND OF LOCATION DO YOU NEED IN TERMS OF TYPE OF NEIGHBORHOOD, TRAFFIC, SUPPLIERS?

2. WHERE DO YOU PLAN TO LOCATE YOUR BUSINESS? WHY?

LEGAL ISSUES

1. DO YOU PLAN TO OPEN AS A SOLE PROPRIETORSHIP, A PARTNERSHIP, OR A CORPORATION?

2. WILL YOU NEED ANY SPECIAL LICENSES? IF SO, WHICH?

RISKS AND POTENTIAL PROBLEMS

1. WHAT ARE THE MAJOR RISKS OF YOUR TYPE OF BUSINESS?

2. ARE THESE RISKS BEYOND YOUR CONTROL?

GOALS

1. WHAT ARE YOUR GOALS FOR THE FIRST YEAR?

2. WHAT ARE YOUR GOALS FOR THE FIRST 5 YEARS?

3. WHAT ARE YOUR GOALS FOR THE NEXT 6-10 YEARS?

BUSINESS PLAN

FOR

THINGS TO DO

A Leisure Time Activities Store

Michele Bryan
Cathy Ely
Jennifer Harless
P.O. Box 356
Ocracoke, NC 27960
919-928-6411

David Senseney
Teacher/Advisor
919-928-3251

March, 1987

STATEMENT OF PURPOSE

Things To Do is seeking a loan of $10,000 (50% of the total start-up money needed) to purchase equipment and inventory; rent a building on the main road on Ocracoke; maintain sufficient cash reserves; and provide adequate working capital to establish a leisure time activities store.

SECTION I: DESCRIPTION OF BUSINESS

Things To Do, a leisure time activities store, will provide both Ocracoke Island residents and tourist customers a variety of leisure time activities they can either rent or buy. Ocracoke is a small village off the coast of North Carolina known for its beaches and its easy-going atmosphere. Tourists come here to relax and to get away from the city. When they come here they have plenty of money and are willing to spend it on something to entertain themselves. Unlike the summer months, the winter months are very dull, because there is nothing for adults and teenagers to do. Every time you turn around it seems someone is saying, "What can we do? There is nothing to do." Things to Do will give them the opportunity for something to do. Merchandise that will be available for rent will be VCR machines, VCR movie tapes, a video camera, used puzzles, cassettes, records, and games. We will also sell at a reduced rate our used VCR tapes, VCR machines, and video cameras. Accessories such as transformers, adapters, cables, blank tapes and surge/low voltage protectors will also be available as well as gift certificates for rentals and sales.

Club membership will be available on a yearly or seasonal basis, though membership will not be a necessity to buy or rent items. Those who sign up for a membership will have reduced prices on rentals and sales. (See Appendix I).

The selection of VCR tapes that we will have, which has been based on the enclosed survey (See Appendix II) of local people includes: mystery, comedy, action, science fiction, classic, horror, romance, western, musical, and children's movies. Through our survey we figured out that each movie should rent one time every other week. (See Appendix III for projected sales.) We are working out a lease contract with VIDEO FINANCE. This is so we can always have a steady supply of tapes and a larger variety. (For terms of contract see Appendix IV.)

We will have a permanent selection of island and sea-related items (videos, games, and puzzles) mainly for the tourists that visit Ocracoke. We have decided to stock these items because people who come to Ocracoke already must be interested in things having to do with islands and the sea. The tourists don't stay long enough to exhaust the supply, though they do stay longer than a day. (Most stay from one week to two weeks.) The beach keeps them occupied during the day, but at night there is no entertainment for them. Also if the weather is bad, or they are sunburned or need entertainment (Electronic Babysitter) for the kids, Things To Do will make these opportunities available.

In the past ten years, VCR rentals have increased greatly. The national statistics show that 35% of all families own a VCR and by the end of the year 50% are likely to own one. Started as a business serving a small market, these businesses have expanded nationally over the years as a result of great demand. We believe our venture will be successful because of the strong and growing local interest in this field as shown by our previously mentioned survey. We visited video businesses off-island to see how they are run; they showed interest and thought the idea was a viable one.

Our target market will be between the ages of 12–35. We chose this range because they are more interested in electronic entertainment and because the other businesses that we visited said that this age group was their target market. They are interested, they have money to spend, and they have the extra time needed for these types of entertainment.

We believe we will have business from 20% of all tourists who visit the island, because 20% or more are in the target age group we chose. The majority of tourists that come here are college students and families with teenagers and young children. We know this because Ocracoke is a resort area that is used for vacations mainly by families

and college students. We realize that this is a very large age range so we will supply a large variety of entertaining items. For example, families who vacation here with young children will be more interested in Walt Disney movies and children's games such as "Battleship," "Bingo," and "Happy Days," while older people and college students will be interested more in adult situation movies, such as science fiction, romance, and action. They will also be more interested in challenging games, such as "Trivial Pursuit," "Scrabble," and "Scruples."

To please our customers we will be open to their suggestions, courteous, helpful, show care and concern, and supply their wants and needs. We will promote business through advertising, reasonable prices, quality goods, and good service to our customers.

All merchandise will come from off-island. Our potential supplier for puzzles and games is Southern Distributors, in Richmond, Virginia, which supplies, among other lines, Milton Bradley and Hallmark made merchandise. The cost of these goods is 40% off retail price. Our supplier for records and tapes will be BIB Distributors of Charlotte, North Carolina. Their wholesale discount will be 50% off retail with 5% to 15% charged for returned merchandise. We will get our video cassette players and our video camera from Comtron Distributors in Iowa. As we mentioned above, our supplier for VCR tapes will be VIDEO FINANCE. VIDEO FINANCE has a lease contract whereby one leases a number of tapes and then rotates them if one wants. We have chosen these distributors, after looking through many, because they were the ones with the lowest prices and had better quality items.

SECTION II: MARKETING PLAN

We will promote business by advertising before our opening and continue to do so throughout the business year, by signs, pamphlets, business cards, and local cable television. The cost of all these items are itemized in the financial plan.

There will be an attractive sign on the front of the building, which we will make ourselves with the help of an island artist.

We will print 5,000 pamphlets, by contract with Ocracoke School, at the cost of 1¢ per copy. These pamphlets will be distributed on the island at many businesses and other locations.

We will have business cards to distribute to customers who come to the store.

Also, we will advertise through the local cable television every day of the week, every week in the summer and every other week in winter. The ad will be run 360 times a day each week.

The business will be open year round with business hours changing seasonally. The business hours will increase during summer months and will decrease during winter months. (See Appendix V for schedule of hours.)

COMPETITION

We have three main types of competition: (1) off-island businesses, (2) mail order businesses, and (3) one island business that among other things, rents VCR tapes and machines.

The off-island competition is approximately 20 miles away but is only accessible by one of three ferries. These ferry trips take from 45 minutes to approximately 3 hours, plus a drive (and sometimes a long wait during the summer) which makes off-island trips inconvenient and time consuming.

The on-island business is a newly-opened VCR rental section in a gift shop, The Merchant Mariner. They will be our main competition, but they offer only VCR machines, VCR tapes and television sets for rent. They are not only an entertainment business but also a gift shop. The Merchant Mariner's weakness is not having the variety of stock in VCR tapes which we will have. The community doesn't support them because they don't have a large enough supply of VCR movie tapes and don't rotate the ones they do have. We will have a large selection and will rotate ours monthly. One advantage we will have over them is that we will have games, puzzles, cassettes and accessories which they do not have. This will provide customers with a wider selection of leisure time activities. Another advantage that we will have is the support from the school students because we are school students ourselves. We also will have the support from the community because they are interested in keeping the young people in the community. Also, the community thinks that this program is a good thing that the school is doing and that it is good that we are accepting the responsibilities that are involved in opening a business. We know this through both our survey and comments from the local citizens.

Alternately, one must shop for VCR-related items through the mail from clubs on the mainland, which is usually inconvenient and slow.

As far as we know, the off-island entertainment businesses do fairly well, but since the island business is new, it hasn't had a chance to show success or failure.

Our target market is the age group 12–35. This is the age group most interested in the entertainment field – especially electronic entertainment. Being in this age group of islanders and acquainted with many tourists of the same age group, the owners understand their interests and wants. Therefore, we hope we will have their support. The 1980 census shows that this age group is 1/3 of our population.

LOCATION

The location we have chosen is in a highly traveled area. It is located on the main road beside Captain Ben's restaurant. (See Appendix VI for a brochure and map of Ocracoke Island showing the location of Things To Do.) The building in which we will have our business is attached to Captain Ben's Restaurant, but has a separate entrance. The restaurant will not interfere with our business, but will be an advantage. When people go into this popular restaurant they will see our sign and will probably become curious and then stop in. The restaurant traffic, therefore, should help business.

The rental agreement for our store is an annual one, payable at $250.00 per month, including utilities. The building will be air conditioned in the summer and heated in the winter. The building that we will be renting is approximately 20 x 40 feet. This puts rent at $6.25 per square foot for the first year. This is about half of the normal Ocracoke commercial rental rate. This space will be adequate for our merchandise and our customers. Based on this amount of space, we determined the amount of stock to buy and the variety of items we will supply. (See Appendix VII.) With all these factors, we have determined the floor layout. (See Appendix VIII.) There will be no renovations made. However, we will be installing shelves and peg boards for displaying the merchandise. We will have plenty of parking space, so people can easily shop at our store.

SECTION III: ORGANIZATION PLAN

MANAGEMENT

Because the three people starting this business are not yet 18 years old, it cannot be incorporated as a private corporation. Instead, it will be organized as a partnership. The three students will each be partners (providing the day-to-day labor and management). The Ocracoke School will be a partner (providing training and supervision) and NC REAL Enterprises will be a partner too (providing some of the start-up loans and investments). A contract working out the details of this partnership will be written with the help of the Small Business and Technology Development Center, which is part of the University of North Carolina. The basic idea is that the business will leave the school and become a private corporation owned by the three students starting it, once they all have reached eighteen and graduated from the school.

The managers of this business will be Cathy Ely, Jennifer Harless, and Michele Bryan. Cathy Ely, as the president, will oversee all matters of the business and also will handle all of the advertising and promotion. Jennifer Harless will keep the books and deal with the financial aspects of the business. Michele Bryan will be in charge of ordering the merchandise and overseeing all legal matters. Each one will also be responsible for her assigned part of the business and be required to get along well with each other. Other responsibilities that each will share equally are the following: Maintenance, running the store, working the cash register, knowledge of the equipment, and working with customers. David Senseney, a teacher and local small business owner, will continue to be our supervisor and advisor.

Over the past several years we have demonstrated our leadership capabilities through our school activities and our work-related experiences in island businesses. Jennifer Harless and Michele Bryan have successful histories as cooks and restaurant workers on Ocracoke. They also cleaned rooms for several motels. Cathy Ely also has worked well in restaurant jobs. More important to the work at Things To Do, Cathy was employed as a salesperson, cashier, stocker and invoice keeper for the Ocracoke T-Shirt Shop.

In school, the owners have had experiences which help qualify them for their work responsibilities. Jennifer, with her success in accounting and business classes, will be able to keep records with input and review from the other two owners.

Michele, as the editor of Ocracoke Island News, has had experience in writing and working with other people. She is also the junior class president, and she demonstrates the leadership and the responsibility that is needed to run class affairs.

Cathy, while being junior class secretary and senior class vice-president, has had experience in working with major national suppliers of educational materials, by ordering all supplies for the prom and money raisers. Also, as the advertising manager for the Ocracoke Island News, she has gained experience in advertising and other aspects of business. She is also taking an advanced science course through the Down East Instruction Telecommunications Network, which has introduced her to the types of machines we will have for rent and will be using at Things To Do.

Cathy Ely and Jennifer Harless have had high school bookkeeping and are capable of keeping their books through the trial balance. A CPA will be hired to complete fiscal year records, help us with our taxes, and provide guidance throughout the year.

The legal papers that this business will require will be warranties for all equipment, documents for rental purposes, the business loan, the lease documents, contracts with suppliers, insurance policies (liability and renters), and the membership contracts.

PERSONNEL

Other than the three owners we will need a part-time worker. This worker will do small duties such as working the cash register, helping stock and doing odd jobs. He/she will be needed to work while we are in school and fill in when otherwise needed. We will find a capable person to hold this job. Each employee will be paid $4.00 per hour. We reached this decision by asking other businesses the going rate. The owners will do all ordering, stocking, bookkeeping, and making sure the business is run properly. We will do this by properly fulfilling the jobs that were mentioned in the management section.

NC REAL Enterprises is helping us, along with the school, and guiding us in this business venture. They send us information and give us advice to help out where needed. Without their help, none of this would be possible. We thank them for their support and this unique opportunity.

NC REAL Enterprises (See Appendix IX for a brochure of NC REAL Enterprises) is a non-profit organization working through state affiliates to assist school systems and community organizations interested in school-based enterprises. Given the operational responsibilities being assumed by the SBTDC (Small Business and Technology Development Center), the fundamental mission of NC REAL Enterprises

is to serve as a special purpose development bank providing financial assistance to one specific client group: rural school-based enterprises.

The major purpose of NC REAL Enterprises is to encourage and to assist rural people in building upon the economic opportunities existing in their area even in the absence of job opportunities and thereby help them, their families and other local people become primary beneficiaries of their own community's development.

The North Carolina Small Business and Technology Development Center (SBTDC), an inter-institutional program within the University of North Carolina, is primarily concerned with supporting economic development int he state by providing assistance in the start-up, expansion, and successful operation of small businesses. In carrying out its mission, the SBTDC cooperates with and fully utilizes a broad range of existing programs and other resources within the state, but its priority attention is focused on leveraging management and technical assistance resources from among the students and faculty of the university's constituent institutions.

The SBTDC has helped us develop this business plan, provided materials and training to our teacher/advisor (David Senseney), and agreed to continue to work closely with us to solve whatever problems come up once we've opened the store later this spring.

SUMMARY

Things To Do is a leisure time activities store on Ocracoke Island, NC. The three students will each invest $500 of their own money in this business (for a total of $1,500). NC REAL Enterprises will be asked to invest $8,500. We are seeking a $10,000 loan to cover the start-up costs of this business. It will cover inventory, rent, working capital, and equipment, while allowing to maintain cash reserves and adequate working capital.

Careful analysis of this business shows a great demand on the island. Tourists will be major customers. We found out what the most popular items are from the distributors. Michele, Cathy, and Jennifer's local reputation along with school support will help secure a sizeable portion of this market. Michele, Cathy, and Jennifer have had basic managerial experience. Cathy has done such things as schedules, invoices, and ordering for an island T-Shirt shop. This assures that the entire operation will be carefully controlled.

The funds sought will be used wisely to increase the sales and flow of cash. The business will be opened year round which will also increase sales and cash flow.

Financial Plan

Application of Start-Up Funds

Rent (first six months)	$1,750.00
Equipment:	
7 video cassette players	1,820.00
3 video cassette recorders	900.00
1 video camera	960.00
1 air conditioner	400.00
1 cash register	300.00
shelves	2,500.00
peg board	500.00
cases	250.00
Working Capital	3,630.00
Inventory	4,605.00
Reserve	635.00
Total	$20,000.00

Things To Do will rent a building on the main highway in Ocracoke Village. It will be rented for $3,000 a year, which includes utilities, payable monthly at $250.00 a month.

The 7 video cassette players, 3 video cassette recorders, and the video camera will be rented out to customers on a daily basis.

The shelves, peg boards, and cases will be used to display our items.

The reserve will be used for emergencies and for any other expenses that we may have overlooked.

The advertising will cost $30.00 for the sign, $50.00 for the pamphlets, $25.00 for business cards, and $1200.00 for year round ads on local cable television.

The financial projections (the profit and loss statement and the cash flow chart) are based on the figures used above. We believe these are conservative estimates of the profit we can make by running this business well.

PROJECTED PROFIT AND LOSS STATEMENT

Year 1 1987-88	Month 1 April	Month 2 May	Month 3 June	Month 4 July	Month 5 Aug.	Month 6 Sept.	Month 7 Oct.	Month 8 Nov.	Month 9 Dec.	Month 10 Jan.	Month 11 Feb.	Month 12 Mar.
Total Net Sales	3200	5700	9200	9200	9200	5200	3200	3200	3200	3200	3200	3200
Cost of Sales	700	2400	3700	3700	3700	1400	6400	1700	1700	1700	1700	700
GROSS PROFIT	2500	2800	5500	5500	5500	3800	3200	1500	1500	1500	1500	2500
Controllable Expenses Salaries	592	1232	1232	1232	1232	1232	592	592	160	160	160	592
Payroll taxes	89	185	185	185	185	185	89	89	24	24	24	89
Security												
Advertising	50	100	100	150	100	100	50	50	50	50	50	50
Automobile												
Dues and subscriptions												
Legal and accounting	0	0	0	0	0	0	0	0	0	0	0	200
Office supplies	50	50	50	50	50	50	50	50	50	50	50	50
Telephone	50	50	50	50	50	50	50	50	50	50	50	50
Utilities												
Miscellaneous	20	20	20	20	20	20	20	20	20	20	20	20
Total Controllable Expenses	851	1637	1637	1687	1637	1637	851	851	354	354	354	1051
Fixed Expenses Depreciation	100	100	100	100	100	100	100	100	100	100	100	100
Insurance	0	0	0	0	0	0	0	0	0	50	0	0
Rent	250	250	250	250	250	250	250	250	250	250	250	250
Taxes and licenses												
Loan payments	225	225	225	225	225	225	225	225	225	225	225	225
Total Fixed Expenses	575	575	575	575	575	575	575	575	575	1075	575	575
TOTAL EXPENSES	1426	2212	2212	2262	2212	2212	1426	1426	929	1429	929	1626
NET PROFIT (LOSS) (before taxes)	1074	588	3288	3238	3288	1588	(4626)	74	571	71	571	874

HO 1-13 (continued)

PROJECTED PROFIT AND LOSS STATEMENT

Year 2 1988-89	Month 1 April	Month 2 May	Month 3 June	Month 4 July	Month 5 Aug.	Month 6 Sept.	Month 7 Oct.	Month 8 Nov.	Month 9 Dec.	Month 10 Jan.	Month 11 Feb.	Month 12 Mar.
Total Net Sales	3700	6200	11200	11200	11200	5700	3700	3700	3700	3700	3700	3700
Cost of Sales	5875	2750	4375	4375	1750	6650	1875	1875	1875	1875	1875	1875
GROSS PROFIT	(2175)	3450	6825	6825	6825	3950	(2950)	1825	1824	1825	1825	1825
Controllable Expenses Salaries	666	1386	1386	1386	1386	1386	666	666	180	180	180	666
Payroll taxes	100	208	208	208	208	208	100	100	27	27	27	100
Security												
Advertising	75	500	100	100	100	100	50	50	50	50	50	50
Automobile												
Dues and subscriptions												
Legal and accounting	0	0	0	0	0	0	0	0	0	0	0	200
Office supplies	100	50	50	50	50	50	50	50	50	50	50	50
Telephone	50	50	50	50	50	50	50	50	50	50	50	50
Utilities												
Miscellaneous	50	25	25	25	25	25	25	25	25	25	25	25
Total Controllable Expenses	1041	2219	1819	1819	1819	1819	941	941	382	382	382	1141
Fixed Expenses Depreciation	100	100	100	100	100	100	100	100	100	100	100	100
Insurance	375	0	0	0	0	0	0	0	0	500	0	0
Rent	300	300	300	300	300	300	300	300	300	300	300	300
Taxes and licenses												
Loan payments	225	225	225	225	225	225	225	225	225	225	225	225
Total Fixed Expenses	1000	625	625	625	625	625	625	625	625	1125	625	625
TOTAL EXPENSES	2041	2844	2444	2444	2444	2444	1566	1566	1007	1507	1007	1766
NET PROFIT (LOSS) (before taxes)	(4216)	606	4381	4381	4381	1506	(4516)	259	818	318	818	59

HO 1-13 (continued)

Year 3 1989-90	Month 1 April	Month 2 May	Month 3 June	Month 4 July	Month 5 Aug.	Month 6 Sept.	Month 7 Oct.	Month 8 Nov.	Month 9 Dec.	Month 10 Jan.	Month 11 Feb.	Month 12 Mar.
Total Net Sales	4325	7450	13700	13700	13700	7450	4325	4325	4325	4325	4325	4325
Cost of Sales	6094	3188	5219	5219	5219	2188	6094	2094	2094	2094	2094	1094
GROSS PROFIT	(1769)	4262	8481	8481	8481	5262	(1769)	2231	2231	2231	2231	3231
Controllable Expenses Salaries	740	1540	1540	1540	1540	1540	740	740	200	200	200	740
Payroll taxes	112	231	231	231	231	231	112	112	30	30	30	112
Security												
Advertising	75	500	100	100	100	100	50	50	50	50	50	50
Automobile												
Dues and subscriptions												
Legal and accounting	0	0	0	0	0	0	0	0	0	0	0	200
Office supplies	75	75	75	75	75	75	75	75	75	75	75	75
Telephone	50	50	50	50	50	50	50	50	50	50	50	50
Utilities												
Miscellaneous	50	50	50	50	50	50	50	50	50	50	50	50
Total Controllable Expenses	1102	2446	2046	2046	2046	2046	1077	1077	455	455	455	1277
Fixed Expenses Depreciation	100	100	100	100	100	100	100	100	100	100	100	100
Insurance	375	0	0	0	0	0	0	0	0	500	0	0
Rent	350	350	350	350	350	350	350	350	350	350	350	350
Taxes and licenses												
Loan payments	225	225	225	225	225	225	225	225	225	225	225	225
Total Fixed Expenses	1050	675	675	675	675	675	675	675	675	1175	675	675
TOTAL EXPENSES	2152	3121	2721	2721	2721	2721	1752	1752	1130	1630	1130	1952
NET PROFIT (LOSS) (before taxes)	(3921)	1141	5760	5760	5760	2541	(3521)	479	1101	601	1101	1279

HO 1-13 (continued)

CASH FLOW PROJECTIONS

Year 2	Pre Start-up	Month 1 April	Month 2 May	Month 3 June	Month 4 July	Month 5 Aug.	Month 6 Sept.	Month 7 Oct.	Month 8 Nov.	Month 9 Dec.	Month 10 Jan.	Month 11 Feb.	Month 12 Mar.
Cash on Hand (Investments)	10,000	3730	4904	5542	10430	13768	17156	18844	14318	14492	15163	16834	17505
Cash Receipts													
Cash Sales		3200	5200	9200	9200	9200	5200	3200	3200	3200	3200	3200	3200
Deposit Refunds				1500							1500		
Loan	10,000												
Total Recpt.	10,000	3200	5200	10700	9200	9200	5200	3200	3200	3200	4700	3200	3200
Total Cash	20,000	6930	10104	16242	19630	22968	22356	22044	17518	17692	19863	20034	20705
Cash Paid Out													
Purchases	14,345	700	2400	3700	3700	3700	1400	6400	1700	1700	1700	1700	700
Gross Wages	0	592	1232	1232	1232	1232	1232	592	592	160	160	160	592
Payroll Exp.	0	89	185	185	185	185	185	89	89	24	24	24	89
Supplies	100	50	50	50	50	50	50	50	50	50	50	50	50
Advertising	500	50	100	100	150	100	100	50	50	50	50	50	50
Acct. & Legal	500	0	0	0	0	0	0	0	0	0	0	0	200
Rent & Util.	250	250	250	250	250	250	250	250	250	250	250	250	250
Telephone	50	50	50	50	50	50	50	50	50	50	50	50	50
Insurance	375	0	0	0	0	0	0	0	0	0	500	0	0
Miscellaneous	150	20	20	20	20	20	20	20	20	20	20	20	20
Subtotal	16,270												
Loan Pmt.	0	225	225	225	225	225	225	225	225	225	225	225	225
Capital Pur.													
Other Costs													
Reserve													
Draw													
Total Paid	16,270	2026	4562	5812	5862	5812	3512	7726	3026	2529	3029	2529	2226
Cash Flow	3,730	4904	5542	10430	13768	17156	18844	14318	14492	15163	16834	17505	18479

HO 1-13 (continued)

CASH FLOW PROJECTIONS

Year 3	Month 1 April	Month 2 May	Month 3 June	Month 4 July	Month 5 Aug.	Month 6 Sept.	Month 7 Oct.	Month 8 Nov.	Month 9 Dec.	Month 10 Jan.	Month 11 Feb.	Month 12 Mar.
Cash on Hand	31,474	27628	28894	36279	42164	48049	50715	47319	47923	50649	51375	52601
Cash Receipts												
Cash Sales	4,325	7450	13700	13700	13700	7450	4325	4325	4325	4325	4325	4325
Deposit Refunds			1500						1500			
Loans												
Total Receipts	4,325	7450	15200	13700	13700	7450	4325	4325	5825	4325	4325	4325
Total Cash	35,799	35078	44094	49979	55864	55499	55040	51644	53748	54974	55700	56926
Cash Paid Out												
Purchases	6,094	3188	5219	5219	5219	2188	6094	2094	2094	2094	2094	1094
Gross Wages	740	1540	1540	1540	1540	1540	740	740	200	200	200	740
Payroll Exp.	112	231	231	231	231	231	112	112	30	30	30	112
Supplies	100	50	50	50	50	50	50	50	50	50	50	50
Advertising	75	500	100	100	100	100	50	50	50	50	50	50
Acct. & Legal	0	0	0	0	0	0	0	0	0	0	0	200
Rent & Util.	350	350	350	350	350	350	350	350	350	350	350	350
Telephone	50	50	50	50	50	50	50	50	50	50	50	50
Insurance	375	0	0	0	0	0	0	0	0	500	0	0
Miscellaneous	50	50	50	50	50	50	50	50	50	50	50	50
Loan Payment	225	225	225	225	225	225	225	225	225	225	225	225
Capital Purchases												
Other Costs												
Reserve												
Total Paid	8,171	6184	7815	7815	7815	4784	7721	3721	3099	3599	3099	2921
Cash Flow	27,628	28894	36279	42164	48049	50715	47319	47923	50649	51375	52601	54005

Club # _____

Amount $ _____

Cash-Credit Card-Check

APPENDIX I cont.

THINGS TO DO--CLUB MEMBERSHIP APPLICATION

Name _____ Date of Application _____
(Please Print)

Mailing Address _____
(P.O. Box or Street) (City) (State) (Zip)

Street Address (If different from above _____

Length There _____ Telephone _____ Drivers License # _____

Place of Employment _____ Telephone No. _____

Position _____ Years There _____

Spouse's Name _____

Spouse's Place of Employment _____ Telephone No. _____

Position _____ Years There _____

VCR Purchase Date _____ Format _____ Purchased From _____

VISA/MASTER CARD/AMERICAN EXPRESS _____
(Card Number) (Expiration Date)

How did you hear about Things To Do? _____

Referral's Name _____

CLUB RULES

1. All members may rent films.
2. All films unless purchased by club member remain the property of Things To Do.
3. All films must be rewound before returning.
4. I will not charge admission to view the video cassettes I rent from Things To Do.
5. I will not broadcast the films I rent from Things To Do.
6. I will not duplicate any of the films I rent from Things To Do.
7. Memberships purchased at $25.00 (or less) or a Things To Do gift certificate redeemed toward memberships are not refundable.
8. All films must be returned on the due date. I understand the late policy to be:
   $1.00 per day per tape late fee will be assessed.
   15 or more days late: Unless other arrangements are made, I authorize Things To Do to charge me full price plus all accrued late charges on my Visa/Master Card/American Express card.

I hereby certify I have read and understand all the rules of the Things To Do video club.

_____ _____
signature date

_____ _____
signature date

WOULD BUY PUZZLES?	Yes	47	39	87
	No	71	59	131
WOULD RENT VIDEO CAMERA?	Yes	40	33	74
	No	77	64	143

NOTE: This survey represents responses from 119 of the 220 households on Ocracoke Island.

Of the options below we chose number 2.

APPENDIX IV

VIDEO FINANCE

DEALER OPTIONS

1. The standard program:

   $5.00 first month tape rental
   $5.00 last months tape rental
   Deposit: $19.98 deposit (half back in 90 days, full amount upon termination)
   Required: 50 piece minimum, six month contract
   Features: $1.98 rotation fee

2. $5.00 first month tape rental
   $5.00 last months tape rental
   Deposit: $15.00 deposit (half back in 90 days, full amount upon termination)
   Required: 150 piece minimu, 300 piece maximum order, six month contract
   Features: 25% rotation,no charge

3. $5.00 first month tape rental
   $5.00 last months tape rental
   Deposit: $10.00 deposit (receive full amount back upon termination)
   Required: 300 piece minimum, six month contract
   Features: $1.98 rotation, rotate any amount desired

4. A Letter of Credit program, in lieu of deposit, is offered depending upon availability. Contact one of our Account Executives for further information.

*Note all programs include the following:

Six month contract
Require first and last months rental
Require a security deposit
Feature full deposit refund upon termination

APPENDIX IV (continued)

VIDEO FINANCE INVENTORY CORPORATION
DEALER PROGRAM

Please indicate the approximate number of titles you wish to receive in each category and format:

MOVIE CATEGORY REQUEST MIX:

CATEGORY	*VHS*	*BETA*	*CATEGORY*	*VHS*	*BETA*	*CATEGORY*	*VHS*	*BETA*
COMEDY	____	____	HORROR	____	____	MUSIC/PERFORM	____	____
ROMANCE	____	____	SCI-FI	____	____	SPORTS	____	____
DRAMA	____	____	MYST/ SUSPENSE	____	____	PHYSICAL/ FITNESS	____	____
FINE ARTS	____	____	ACTION/ADV	____	____	HOW-TO	____	____
MUSIC/ FEATURES	____	____	MARTIAL ARTS	____	____	DOCUMENTARY	____	____
FOREIGN	____	____	WAR	____	____	"X" RATED	____	____
CHILDRENS	____	____	WESTERN	____	____			

TOTAL VHS ORDERED _____ TOTAL BETA ORDERED _____

AGREEMENT FEES:

Please Indicate The Leasing Program That Best Fits Your Needs. _____ (1, 2, 3, 4.). Choose One.

MONTHLY RENT PER TAPE: $_____ ea.
DEPOSIT PER TAPE: $_____ ea.
TAPE EXCHANGE FEE: $_____ ea.

(Number of Tapes)		(Rental Fees)				
_____	x	$_____	=	First month rent	=	$_____
_____	x	$_____	=	Last month rent	=	$_____
				Total Deposit Amount	=	$_____
				Less $100.00 set-up fee	=	($100.00)
				Total Due (excluding freight)	=	$_____

This agreement is made between Video Finance Inventory Corporation, a Washington Corporation, and

(PLEASE PRINT)

Store Name: _____

Owner Name: _____

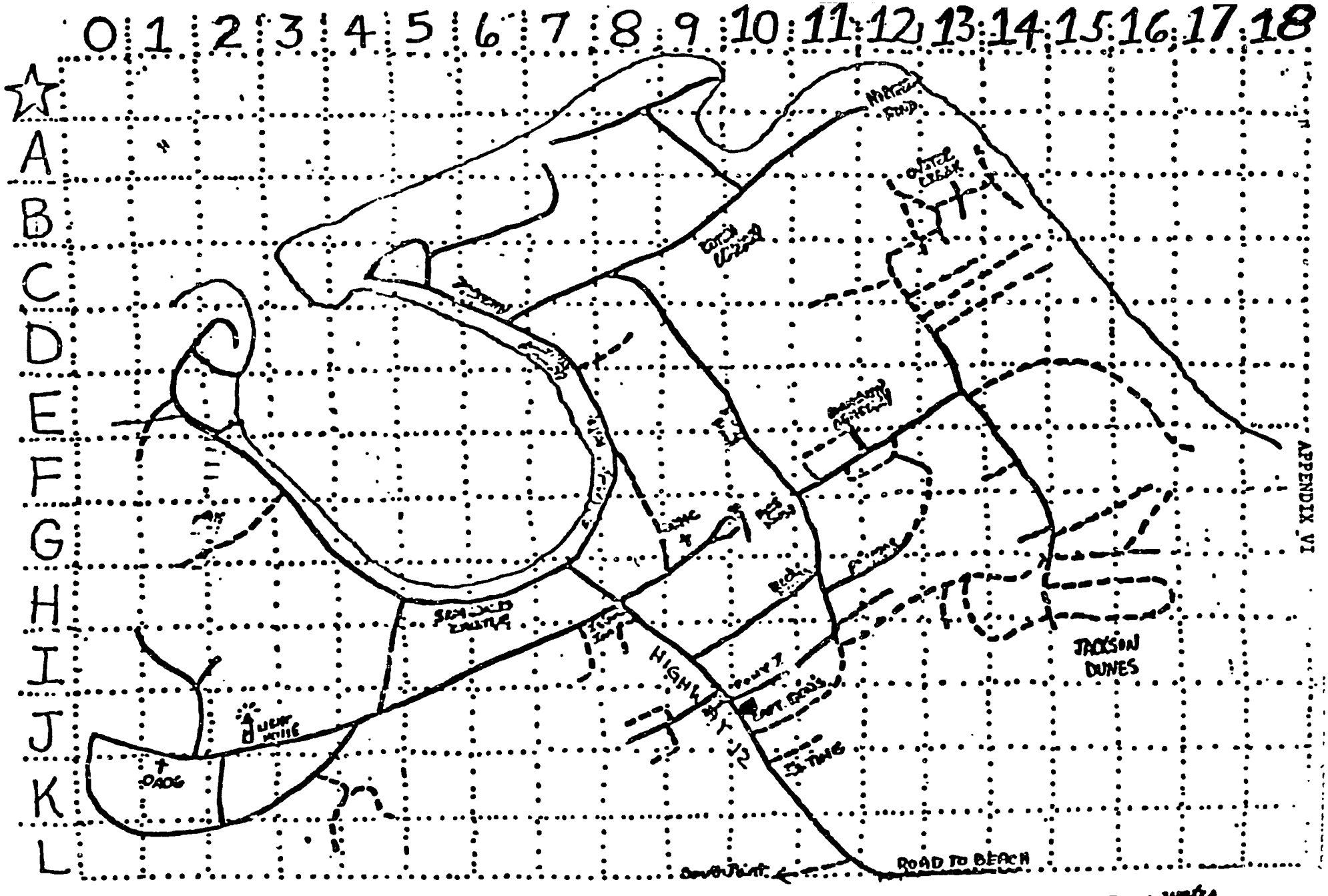
Address: _____

City: _____ County: _____

State: _____ Zip: _____

Store Phone: _____ Home Phone: _____

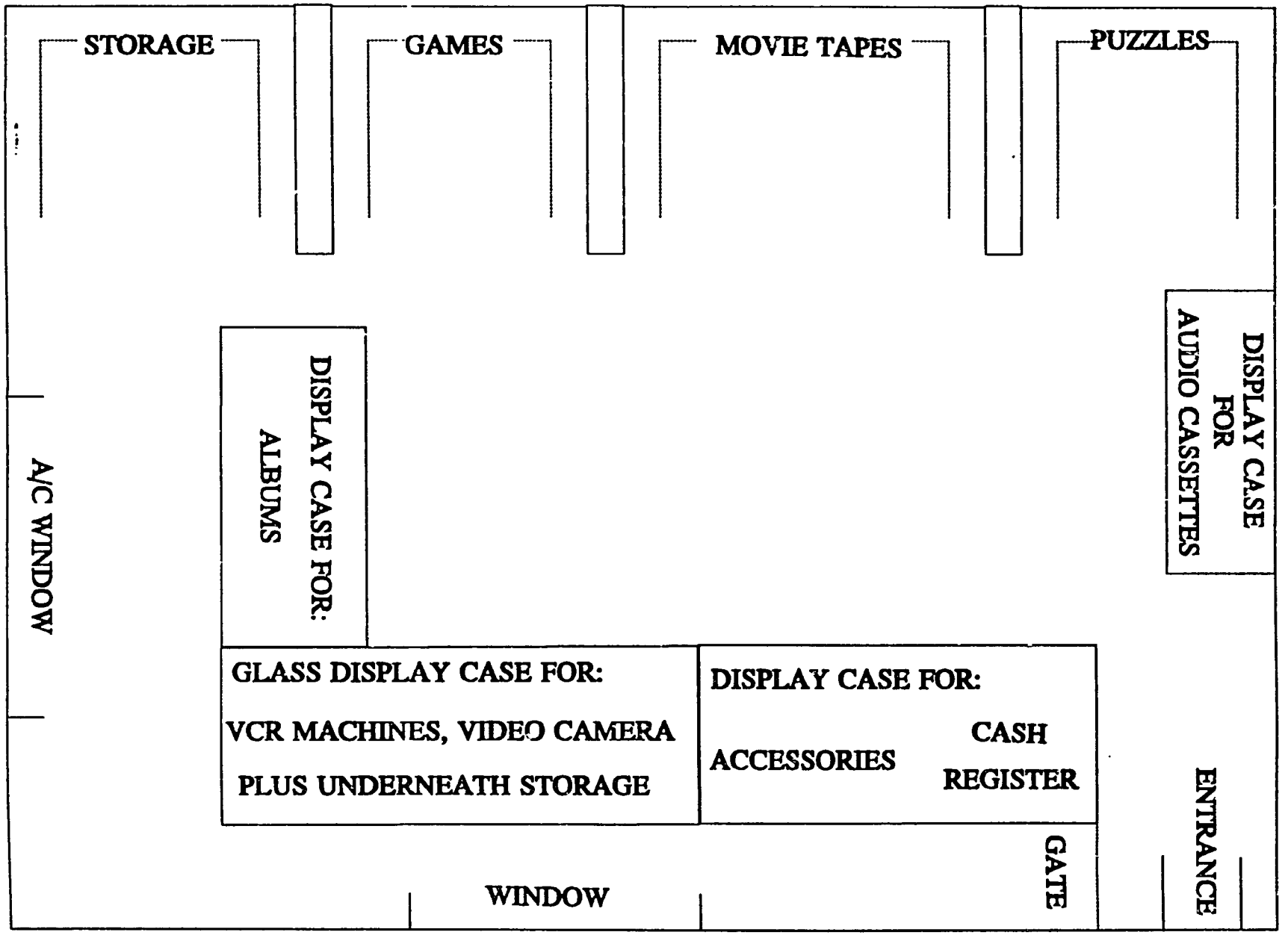
Dealers Initials: _____



Ocracoke Island Village, shown above, is two miles by three miles wide at the largest point.

LOCATION OF THINGS TO DO

20' X 24'


STORAGE
GAMES
MOVIE TAPES
PUZZLES
DISPLAY CASE FOR AUDIO CASSETTES
DISPLAY CASE FOR: ALBUMS
A/C WINDOW
GLASS DISPLAY CASE FOR:
VCR MACHINES, VIDEO CAMERA
PLUS UNDERNEATH STORAGE
DISPLAY CASE FOR:
ACCESSORIES
CASH REGISTER
GATE
ENTRANCE
WINDOW

SUGARBABIES PHOTOGRAPHY STUDIO AND GIFT SHOP

Submitted to

PEOPLES FEDERAL SAVINGS BANK

LESA R. KRITES

706 Northwestern Avenue
Wooster, Ohio 44691

(216) 262-0965

January 31, 1990

STATEMENT OF PURPOSE

Sugarbabies is seeking a line of credit of $18,000.00 to purchase equipment and inventory; purchase supplies, photographic and office; maintain sufficient cash reserves; and provide adequate working capital. This sum, with the $1,000.00 worth of items I own and equity of $2,000.00, will be sufficient to finance Sugarbabies so the business can operate at a profit and have a cushion against emergencies in the first year.

My name is Lesa R. Krites and I am a professional photographer. I will be opening a photography studio in early spring called Sugarbabies. I specialize in children's portraiture, but plan to expand into other areas of photography such as family groups, individual portraits and weddings. Sugarbabies will also carry a limited line of gift items and frames.

Sugarbabies is a new business opportunity for me that I plan to operate full time. Children's photography is a year-round job with peak seasons in the spring, and late fall for Christmas gifts. Sugarbabies will be successful due to my background in photography, marketing, business practices and policies. These practices and policies include satisfying my customers by:

1. Listening to customers' needs and wants
2. Being original
3. Using top quality products
4. Having competitive prices
5. Completing orders in a timely fashion
6. Offering appointments for individual attention
7. Creating a personal and warm atmosphere

Over the past six years an average of 1,647 babies were born to Wayne County residents per year and therefore Sugarbabies has a strong opportunity for growth. Sugarbabies' potential customers will be parents of children from infants through 17 years of age. This particular market will range from the middle to upper middle income bracket and a clientele of 20 through 45 years of age is expected. The average income for my select market is estimated between $20,000 and $60,000 per year per family.

Sugarbabies will advertise by newspaper, yellow pages, flyers, sporting events (such as High School football and basketball games), select direct mail and other miscellaneous media. I will keep my share of the market and gain other segments of the market by being the best children's photographer in the area and by offering packages, competitive prices and special incentives. A few of these incentives are: 1 free 8x10 with a purchase of a $40.00 package; and a 10% discount on purchases over $75.00

Sugarbabies will be the only advertised studio that specializes in children's portraiture. There are, however, three studios – Liberty, Friends and Morrison's – and one mini-studio, Freeze Frame, in Wooster who take children's portraits. Of the foregoing studios, Liberty and Freeze Frame offer special prices and packages for children's portraiture. Morrison's and Friends' studios currently do not offer these specials. In speaking with the owners of two of these studios, children's photography is extremely marketable in Wooster, especially for a studio that will offer a variety of backgrounds, props, special prices and packages to their customers.

Sugarbabies will be located in the Overholt House on Beall Avenue in Wooster. The Overholt House was chosen for the following reasons:

1. The house is located on a well-traveled avenue.
2. There is ample parking at the door.
3. The house itself is an historic site and well known to the Wooster area.
4. The rent is reasonable and the utilities are included.
5. All upkeep is provided by the owner.
6. The house is tastefully decorated inside and out.
7. The rooms are large with high ceilings.

The Overholt House is an ideal location for Sugarbabies as it is a well known landmark, which should only help my customers locate and remember the studio. This particular building lends itself well to a Victorian theme and Sugarbabies has developed its logo (a cherub holding a banner) with the Overholt structure in mind. The floor plan of the Overhold house is favorable for a two-business operation. I will rent four rooms on the main floor for the sum of $600.00 (including utilities) per month. Of these four rooms, two rooms will be subleased to another merchant. By merging two businesses I will utilize my exposure to the fullest.

Sugarbabies will be under sole proprietorship and will be managed by myself. In 1980 I graduated from Wooster High, where my studies included general, business, and photography. I graduated from Wayne General in 1984 with an associate degree in marketing and sales. In January 1990 I graduated from the V.B.O. (Ventures in Business Ownership) program from the Wayne County Schools Career Center. Starting in June 1980 through October of 1987 I was employed by Chris Whitmeyer at Liberty Studios. My initial duties at Liberty were to:

1. Wait on customers
2. Answer the telephone
3. Make appointments
4. Cut pictures and put up orders
5. Print proofs and finished pictures
6. File negatives and other office duties.

A year or so later I had worked my way into a management position which entailed making decisions that would effect the entire studio and its operation. My duties as manager included:

1. Payroll
2. Accounts Receivable
3. Accounts Payable
4. Ordering supplies
5. Overseeing two employees
6. Public Relations
7. Advertising and other miscellaneous duties.

In 1982 I started taking studio sittings, and since that time I have taken photographs in almost all areas of photography, adding six weddings to my list of accomplishments. I am at my creative best while working with children and I am well versed in all aspects of running a photography studio.

I will hire spot labor or free lance employees until the time is right to employ full- or part-time persons. My employees will have a variety of jobs such as answering the telephone, waiting on customers, cutting pictures and putting up orders. All training will be provided by myself and wages/benefits will be negotiable. All of the daily bookkeeping, payroll, accounts payable and receivable will be done by myself. An accountant will be hired to take care of all other important matters on an annual basis.

Plans and expectations for Sugarbabies for the next five years, due to continual financial analyses and appropriate management techniques:

1. Sugarbabies will employ two fulltime office workers and an additional photographer
2. Sugarbabies will expand into other areas of photography such as weddings, senior, and family portraiture.

Plans and expectations for the next eight to ten years:

1. Two wedding photographers will be hired
2. An employee will be promoted to manager to relieve me of some of the daily duties
3. I will have made enough money to help build a home in the country for my family.

SUGARBABIES' PRICE LIST

Pkg. #1	1 - 8x10 8 wallets	$25.00	Pkg. #2	1 -8x10 2 -5x7 8 wallets	$40.00
Pkg. #3	1 - 8x10 4 - 4x5 8 wallets	$40.00	Pkg. #4	1 - 8x10 2 - 5x7 4 - 4x5 8 wallets	$55.00
Pkg. #5	1 - 8x10 4 - 4x5 16 wallets	$55.00	Pkg. #6	1 - 11x14 1 - 8x10 2 - 5x7 8 wallets	$70.00
Pkg #7	1 - 11x14 2 - 8x10 2 - 5x7 4 - 4x5 8 wallets	$95.00	Pkg. #8	1 - 16x20 2 - 8x10 2 5x7 16 wallets	$115.00
Pkg. #9	1 - 16x20 2 - 8x10 2 - 5x7 4 - 4x5 8 wallets	$115.00			

Extras:

1 -16x20	$50.00
1 - 11x14	30.00
1 - 8x10	15.00
2 - 5x7	15.00
4 - 4x5	15.00
8 wallets	15.00

Prices may change without notice.

A $10.00 deposit is required at the time of your sitting and your deposit is then deducted from the total bill. Full payment is due upon placement of your order.

* If no package is ordered a $10.00 camera charge is due.
**All packages are based on the same pose; there will be a $5.00 charge for each additional pose.

A. START-UP COSTS

1. Equipment

Camera	$750.00
Lights w/stands & battery pack	750.00
Tripod on wheels	400.00
Flash meter	200.00
Portable background holder	399.00
Background support	25.00
Black 5x6 background	30.00
Blue cloth background 15x15	62.00
Paint Splatter background 12x10	60.00
Old Masters background - gray 6x7	127.00
Super Scenic Series background 6x7	181.00
Free standing mirror	20.00
Metal wash tub	15.00
Posing table	45.00
Small wicker chair	40.00
Painted paint cans and brushes	50.00
Baby poser	35.00
2 standard posing stools at $75.00	150.00
5 throw covers as backgrounds	125.00
Camera cleaning equipment	10.00
Total	$3474.00

2. Photo Supplies

Goldenwriter pen	$25.00
4x5 Glassine envelopes - 1000 count	52.00
1 retouching brush	10.00
Retouching liquids	15.00
Magnifying glass	7.00
Custom envelopes - 500 count	38.00
4x5 proof envelopes - 500 count	68.00
5x7 picture envelopes - 1000 count	118.00
8x10 picture envelopes - 1000 count	125.00
8x10 chip board - 1000 count	35.00
Art prep fee	60.00
Miscellaneous supplies	30.00
Total	$583.00

3. Office Supplies

1000 business cards	$250.00
Printed stationery and envelopes	145.00
Price Lists	85.00
Plain receipts	30.00
Total	$510.00

4. New Inventory

8x10 and 5x7 frames	$100.00
5x7 folders	60.00
Gifts	150.00
Total	$310.00

5. Miscellaneous Start-Up Expenses

Showcase-counter	$100.00
Cash box	35.00
Waiting room furniture	100.00
Appointment book	12.00
Paper cutter	75.00
Light for cutting table	15.00
Light box	35.00
Filing cabinet	100.00
Sign	160.00
Deposits	
1. Telephone and hook up	390.00
2. Security deposit on rental	300.00
Sample pictures for waiting room	200.00
Total	$1522.00

B. USE OF OPERATING CAPITAL

Salaries for 9 months at $800.00/mo.	$7,200.00
Rent & utilities for 9 months at $300.00/mo.	2,700.00
Repayment of loan for 9 months at $400.00/mo.	3,600.00
Advertising for 6 months at an average of $58.00/mo	350.00
Film for 6 months at an average of $58.00/mo.	350.00
Miscellaneous	500.00
Total	$14,700.00

C. OPERATING COSTS FROM BUSINESS' GROSS PROFITS

Salaries for 3 months at $800.00/mo.	$2,400.00
Rent & utilities for 3 months at $300.00/mo.	900.00
Repayment of loan for 3 months at $400.00/mo.	1,200.00
Advertising for 6 months at an average of $58.00/mo.	350.00
Film for 6 months at an average of $58.00/mo.	350.00
Telephone for 12 months at $35.00/mo.	420.00
Spot labor for 12 months at $100.00/mo.	1,200.00
Total	$6,820.00

D. ITEMS I OWN FOR STUDIO

Wooden rocking horse	$50.00
Small plastic chair	75.00
Wooden cradle	50.00
Baskets & flowers, etc.	35.00
Antique rocking chair	250.00
Table for cutting pictures	40.00
Changing table	50.00
Back-up camera and flash	250.00
Toys for studio room	35.00
Small cart for stacking finished orders	15.00
Antique two-seater waiting room bench	50.00
Desk and chair	75.00
brass desk lamp	30.00
Total	$1,005.00

E. INCOME PROJECTION FOR YEAR ONE

Opening in	Appointments Taken	Gross Sales	Gross Margin
MARCH	40 x 60.00	$2,400.00	$1,788.00
APRIL	80 x 60.00	4,800.00	3,576.00
MAY	100 x 60.00	6,000.00	4,470.00
JUNE	100 x 60.00	6,000.00	4,470.00
JULY	100 x 60.00	6,000.00	4,470.00
AUGUST	150 x 60.00	9,000.00	6,705.00
SEPTEMBER	150 x 60.00	9,000.00	6,705.00
OCTOBER	250 x 60.00	15,000.00	11,175.00
NOVEMBER	350 x 60.00	21,000.00	15,645.00
DECEMBER	150 x 60.00	9,000.00	6,705.00
JANUARY	50 x 60.00	3,000.00	2,235.00
FEBRUARY	50 x 60.00	3,000.00	2,235.00
Total	1570 customers	$94,200.00	$70,179.00

Assumptions:
- Each customer will average $60.00 per sale.
- November will be the biggest month.
- Cost-of-goods-sold averages $15.30 per sale.

F. CASH FLOW PROJECTIONS FOR SUGARBABIES STUDIO AND GIFT SHOP

	1990						1990				1991		
	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.	January	February	Totals
SALES	$2,400	$4,800	$6,000	$6,000	$9,000	$9,000	$9,000	$15,000	$21,000	$9,000	$3,000	$3,000	$94,200
Cost of Goods	612	1,224	1,530	1,530	1,530	2,295	2,295	3,825	5,355	2,295	765	765	24,021
GROSS MARGIN	1,788	3,576	4,470	4,470	4,470	6,705	6,705	11,175	15,645	6,705	2,235	2,235	70,179
OPERATING EXPENSES:													
Salaries	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
Spot Labor	500	900	900	900	900	1,300	1,600	2,400	2,400	1,600	100	100	13,600
Rent/Utilities	300	300	300	300	300	300	300	300	300	300	300	300	3,600
Phone	35	35	35	35	35	35	35	35	35	35	35	35	420
New Inventory	310	50	50	50	50	50	50	100	600	200	0	50	1,560
Photo Supplies	583	60	60	60	60	60	60	60	260	160	60	60	1,543
Advertising	100	58	58	58	58	58	58	258	258	58	58	58	1,138
Licenses/Fees	45	0	0	0	0	0	0	0	0	0	0	0	45
Insurance	150	0	0	0	0	0	0	0	0	0	0	0	150
Principle Repay	0	1,400	1,400	1,600	1,600	2,400	2,425	2,425	2,425	1,625	1,000	300	18,000
Interest	200	200	200	200	200	200	175	175	175	175	175	175	2,250
Other Supplies	510	0	0	0	0	300	0	0	0	0	0	0	810
Miscellaneous	500	0	0	0	0	0	0	0	0	0	0	0	500
TOTAL OPERATING EXPENSES	$4,433	$3,6073	$4,203	$4,403	$4,403	$5,903	$5,903	$6,953	$7,653	$5,353	$2,928	$2,278	$58,016
NET PROFIT (LOSS) BEFORE TAXES	($2,645)	($27)	$267	$67	$67	$802	$802	$4,222	$7,992	$1,352	($693)	($43)	$12,163

Cost of goods sold for packages averaging $60,000 = 25.5% of sale.

Interest rate for calculations = 13%

G. SUMMARY: USE OF LOAN/CASH RESERVES

Cash on Hand		
Loan		$18,000
Personal Equity		2,000
Total		$20,000
Start up Costs		
Equipment	$3,474	
Photo Supplies	583	
Office Supplies	510	
Inventory	310	
Miscellaneous	1,522	
Total	$6,399	
Working Capital (3 months)		
Salaries/Spot Labor	$6,900	
Rent/Utilities	900	
Loan Repayment	2,800	
Advertising	216	
Telephone	105	
Photography Supplies	330	
Total Working Capital	$11,251	
Research		$2,350

H. CASH FLOW SUMMARY

	Beginning Cash	Sales	Startup	Cost of Goods	Operating Costs	Ending Balance
March	20,000	2,400	6,399	612	4,433	10,956
April	10,956	4,800	---	1,224	3,603	10,929
May	10,929	6,000	---	1,530	4,203	11,196
June	11,196	6,000	---	1,530	4,403	11,263
July	11,263	6,000	---	1,530	4,403	11,330
August	11,330	9,000	---	2,295	5,903	12,132
September	12,132	9,000	---	2,295	5,903	12,934
October	12,394	15,000	---	3,825	6,953	17,156
November	17,156	21,000	---	5,355	7,653	25,148
December	25,148	9,000	---	2,295	5,353	26,500
January	26,500	3,000	---	765	2,928	25,807
February	25,807	3,000	---	765	2,278	25,764

OTHER IMPORTANT INFORMATION

1. I purchased a car in 1990 for $3,600.00 and paid cash for it.

2. Leased a new car from Performance Pontiac from 1984 to 1987.

3. I had a $2,000.00 business loan from Wayne County National Bank under the names of Val Barner and Lesa R. Walton. Repaid in full almost one year early.

4. I pay all the household bills and on time.

CHARACTERISTICS OF ENTREPRENEURS

UNIT 2

Title: **CHARACTERISTICS OF ENTREPRENEURS**

Purpose: This unit is designed to help participants evaluate their desire to become small business owners and identify certain behaviors and characteristics that are common among business owners.

Objectives: Upon completion of this unit the participant will –

- have an awareness of the characteristics and behaviors of an entrepreneur.
- have evaluated their personal characteristics in relationship to research.

Materials:

Transparency 2-1:	What is an Entrepreneur?
Transparency 2-2:	Personality Factors of Self-Employed Persons
Transparency 2-3:	Business Skills
Handout 2-1:	Entrepreneurship Self-Assessment Profile
Handout 2-2:	Typical Characteristics of the Successful Entrepreneur
Handout 2-3:	Worksheet 1 - Self Evaluation Checklist
Handout 2-4:	Rating Scale for Evaluating Personal Traits Important to the Proprietor of a Business
Handout 2-5:	Business Skills Inventory
Handout 2-6:	What Does It Take to Be a Businessman or Businesswoman?
Handout 2-7:	What Technical Assistance do You Need?

Resources:

Technical and Vocational Institute, Albuquerque, New Mexico.

PACE, Program for Acquiring Competence in Entrepreneurship.

Assignment: Completion of both profiles.

Note to Instructor: This unit is designed to help participants identify characteristics that entrepreneurs share. It is important to point out that an individual can be a successful entrepreneur without having all the mentioned charateristics.

Estimated time:

Discussion of transparencies	approximately 15 minutes
Completion and discussion of Self-assessment of Entrepreneurial Characteristics Profile Guide and Rating Scale for Evaluating Personal Traits important to the Proprietor of a Business	approximately 30 minutes.
Completion and discussion of the Business Skills Inventory	approximately 15 minutes.

UNIT 2

Characteristics of an Entrepreneur

CONTENT	PROCESS
Characteristics & Behaviors of Entrepreneurs	Instructor will show overhead transparency: TP 2-1: What is an Entrepreneur?
What is an entrepreneur? This session will help the entrepreneur identify qualities and abilities that are typical among business owners.	Participants will share their definition of an entrepreneur.
An entrepreneur is a person who sees everything as an opportunity and is willing to accept change and try new things. An entrepreneur is very tolerant and a jack of all trades.	
Evaluate Personal Characteristics in Relationship to Research on entrepreneurs.	Instructor will distribute handout: HO 2-1: Entrepreneurial Self-Assessment Profile The participants will complete the assessment profile of entrepreneurial special abilities. Discussion will follow.
An entrepreneur is an individual who undertakes all the risks related to forming and operating a small business. This involves performing all business functions associated with a product or service and includes social responsibilities and legal requirements.	Instructor will distribute and discuss handout: HO 2-2: Typical Characteristics of the Successful Entrepreneur
The Entrepreneurship Self-Assessment Profile will give an indication of your potential as an entrepreneur. The suggested answers were obtained through questionnaires given to entrepreneurs.	Instructor will distribute and discuss handout: HO 2-3: Worksheet 1, Self-Evaluation Checklist The participants will complete and discuss the worksheet.
The 50 questions on the Entrepreneurship Self-Assessment Profile Guide have been grouped into three categories: Personal background, behavior patterns and life styles. Each question addresses specific areas that relate to entrepreneurs, as noted in parentheses following each question.	The instructor will show overhead transparency: TP 2-2: Personality Factors of Self-Employed Persons. Instructor and participants will discuss personality traits of entrepreneurs.

CONTENT	PROCESS
The answers that you see here are what studies show to be the commonly given response of small business owners. You will want to compare your answers to what is shown on the Self-Assessment Profile Guide.	Instructor will show overhead transparency: TP 2-3: Business Skills Group will discuss the skills needed to operate a business.
Personality factors of self-employed persons includes self-confidence, perseverance, determination, high energy diligence, resourcefulness, ability to take calculated risks, a need to achieve, creativity, initiative, flexibility, positive response to challenges, independent, foresight, dynamic, ability to lead, versatility in knowledge, ability to get along well with people, responsive to suggestions and criticism, profit oriented, perceptive, and optimistic. It is important to point out to participants that success as an entrepreneur is not fully contingent on possessing these characteristics.	Instructor will distribute handout: HO 2-4: Rating Scale for Evaluating Personal Traits Important to the Proprietor of a Business. Participants will complete the rating scale handout and discuss.
Identify Specific Business Skills Entrepreneurs Possess and Areas in Which They Need Technical Assistance. For this session, business skills will be defined as those skills necessary for the successful operation and maintenance of a small business. There are many business skills required by entrepreneurs. These skills include: Developing a business plan, obtaining technical assistance, choosing the type of business ownership, planning the marketing	Instructor will distribute handout: HO 2-5: Business Skills Inventory. The participants will complete the business skills inventory.

CONTENT	PROCESS
strategy. locating the business, financing the business, dealing with legal issues, complying with government regulations, managing the business, managing human resources, promoting the business, managing sales efforts, keeping business records, managing finances, managing customer credit and collections, and protecting the business.	
Identify strengths and Weaknesses of Entrepreneurial Characteristics and Business Skills. Entrepreneurs must possess a sense of independence along with will power. The questions asked on the technical assistance questionnaire should be a guide in helping the small business owner discover weakness as well as strengths. The rating scale for evaluating personal traits important to the proprietor of a business will help the participant identify his/her initiative, attitude toward others, leadership ability, as well as ability to accept responsibility and organizational ability. Decision making ability, sincerity and physical energy can be measured by this worksheet. To be a businessman or business woman it takes: Ability to communicate and get along with people and a high level of energy and health. There is a need for not just a willingness, but an ability to work hard. There must be a strong desire to build and to create. A pessimist will not go far in	The participants will discuss their strengths and weaknesses as well as advantages and disadvantages of various characteristics and skills. Instructor will distribute and discuss handout: HO 2-6: What Does It Take to Be a Businessman or Businesswoman? Instructor will distribute handout: HO 2-7: What Technical Assistance Do You Need? Participants will complete and discuss the worksheet.

CONTENT	PROCESS
business, because he/she may not be willing to take risks. An optimistic person will realize that risks are inherent in business ownership. There is a need for organization and orderliness as well as an ability to delegate responsibilities. Business experience and background is essential for the business to grow. Ambition plus determination to get ahead is a necessity. The business owner must have a good self-confidence and must be able to be self-reliant. Procrastination will work against a business. Many irritations and frustrations will be common in business, thus a business owner must be a patient individual. Responsibilities and anxieties go hand in hand and the entrepreneur must be able to take worries and leave them. Honesty is another major attribute of an entrepreneur. A feeling for community service is necessary because no business can remain isolated for long. A business person probably will not possess all of these characteristics, but a combination of some of them is essential.	Instructor will conduct an open discussion on characteristics and behaviors of entrepreneurs.

WHAT IS AN ENTREPRENEUR?

An entrepreneur is an individual who undertakes all the risks related to forming and operating a small business. This involves performing all business functions associated with a product or service and includes social responsibilities and legal requirements.

PERSONALITY FACTORS OF SELF-EMPLOYED PERSONS

1. SELF-CONFIDENCE
2. PERSEVERANCE, DETERMINATION
3. ENERGY, DILIGENCE
4. RESOURCEFULNESS
5. ABILITY TO TAKE CALCULATED RISKS
6. NEED TO ACHIEVE
7. CREATIVITY
8. INITIATIVE
9. FLEXIBILITY
10. POSITIVE RESPONSE TO CHALLENGES
11. INDEPENDENCE
12. FORESIGHT
13. DYNAMISM, LEADERSHIP
14. VERSATILITY IN KNOWLEDGE
15. ABILITY TO GET ALONG WITH PEOPLE
16. RESPONSIVENESS TO SUGGESTIONS AND CRITICISM
17. PROFIT ORIENTATION
18. PERCEPTIVENESS
19. OPTIMISM

BUSINESS SKILLS

DEVELOPING THE BUSINESS PLAN
OBTAINING TECHNICAL ASSISTANCE
CHOOSING THE TYPE OF OWNERSHIP
PLANNING THE MARKETING STRATEGY
LOCATING THE BUSINESS
FINANCING THE BUSINESS
DEALING WITH LEGAL ISSUES
COMPLYING WITH GOVERNMENT REGULATIONS
MANAGING THE BUSINESS
MANAGING HUMAN RESOURCES
PROMOTING THE BUSINESS
MANAGING SALES EFFORTS
KEEPING THE BUSINESS RECORDS
MANAGING THE FINANCES
MANAGING CUSTOMER CREDIT AND COLLECTIONS
PROTECTING THE BUSINESS

ENTREPRENEURSHIP SELF-ASSESSMENT PROFILE

Instructions: This questionnaire will help you look at your personal background, behavior patterns, and life-style in relation to what is known about entrepreneurs. The questions were designed to represent some of the characteristics studies have shown that entrepreneurs tend to exhibit. Put an X under the response – **Rarely or No** or **Mostly or Yes** – that best represents your answer to each question. Be honest – there are no wrong answers. Complete all 50 questions.

	Rarely or No	Mostly or Yes
1. Do you worry about what others think of you?	_____	_____
2. Do you read books?	_____	_____
3. Do you take risks for the thrill of it?	_____	_____
4. Do you find it easy to get others to do something for you?	_____	_____
5. Has someone in your family shared the experience of starting a business with you?	_____	_____
6. Do you believe in organizing your tasks before getting started?	_____	_____
7. Do you get sick often?	_____	_____
8. Do you enjoy doing something just to prove you can?	_____	_____
9. Have you ever been fired from a job?	_____	_____
10. Do you find yourself constantly thinking up new ideas?	_____	_____
11. Do you prefer to let a friend decide on your social activities?	_____	_____
12. Did you like school?	_____	_____
13. Were you a very good student?	_____	_____
14. Did you run with a group in high school?	_____	_____
15. Did you participate in school activities or sports?	_____	_____
16. Do you like to take care of details?	_____	_____
17. Do you believe there should be security in a job?	_____	_____
18. Will you deliberately seek a direct confrontation to get needed results?	_____	_____
19. Were you a firstborn child?	_____	_____
20. Was your father mostly present during your early life at home?	_____	_____
21. Were you expected to do odd jobs at home before 10 years of age?	_____	_____
22. Do you get bored easily?	_____	_____
23. Are you sometimes arrogant about your accomplishments?	_____	_____
24. Can you concentrate for extended periods of time on one subject?	_____	_____

ENTREPRENEURSHIP SELF-ASSESSMENT PROFILE – *Continued*

	Rarely or No	Mostly or Yes
25. Do you, on occasion, need pep talks from others to keep you going?	_____	_____
26. Do you find unexpected energy resources as you tackle things you like?	_____	_____
27. Does personal satisfaction mean more to you than having money to spend on yourself?	_____	_____
28. Do you enjoy socializing regularly?	_____	_____
29. Have you ever deliberately exceeded your authority at work?	_____	_____
30. Do you try to find the benefits of a bad situation?	_____	_____
31. Do you blame others when something goes wrong?	_____	_____
32. Do you enjoy tackling a task without knowing all the potential problems?	_____	_____
33. Do you persist when others tell you it can't be done?	_____	_____
34. Do you take rejection personally?	_____	_____
35. Do you believe that you generally have a lot of good luck that explains your successes?	_____	_____
36. Are you likely to work long hours to accomplish a goal?	_____	_____
37. Do you enjoy being able to make your own decisions on the job?	_____	_____
38. Did you wake up happy most of your life?	_____	_____
39. Can you accept failure without admitting defeat?	_____	_____
40. Do you have a savings account and other personal investments?	_____	_____
41. Do you believe that entrepreneurs take a huge risk?	_____	_____
42. Do you feel that successful entrepreneurs must have advanced college degrees?	_____	_____
43. Do you strive to use past mistakes as a learning process?	_____	_____
44. Are you more people oriented than goals oriented?	_____	_____
45. Do you find that answers to problems come to you out of nowhere?	_____	_____
46. Do you enjoy finding an answer to a frustrating problem?	_____	_____
47. Do you prefer to be a loner in your decisions?	_____	_____
48. Do your conversations discuss people more than events or ideas?	_____	_____
49. Do you feel good about yourself in spite of criticism of others?	_____	_____
50. Do you sleep as little as possible?	_____	_____

ENTREPRENEURSHIP SELF-ASSESSMENT PROFILE GUIDE

Answer these questions:

1. What personal weaknesses did you discover? _____

2. Can you be an entrepreneur with these weaknesses? _____

3. What can you do to improve your areas of weakness? _____

4. What are your strengths? _____

5. Do your strengths make up for your weaknesses? _____

6. Is your life-style compatible with the demands upon an entrepreneur? _____

Typical Characteristics of the Successful Entrepreneur

A good deal is known about what it takes to be a successful entrepreneur. For the most part, it seems that the one overriding factor that is most often found in highly successful entrepreneurs is a tremendous need to achieve. In short, attitude seems to have almost everything to do with success in business, while factors such as intelligence, education, physical appearance and a pleasing personality are must less important. Characteristics of the typical successful entrepreneur include the following:

- **An overpowering need to achieve**, as opposed to a need to be liked, or to exercise power. The form in which different individuals measure their achievement varies widely, ranging from amassing wealth to building a larger organization to creating a better mousetrap than anyone else.

- The trait of **following through** on a commitment, not quitting half-way through when the going gets touch. In short, perseverance.

- **Positive mental attitude**, or the ability to remain optimistic in novel situations, which essentially grows out of being self-confident about one's abilities.

- **Objectivity.** The ability to accurately weigh and assess risks associated with a particular course of action, as well as being realistic about one's own abilities and limitations.

- **A respectful attitude toward money,** but a tendency to look upon money as a means for accomplishing things, or a way of keeping score in the game of business, rather than as a thing to be sought as an end in itself.

- The **tendency to anticipate developments** and to make things happen, rather than constantly reacting to problems as they arise.

- **Resourcefulness.** The ability to solve unique problems in unique ways, to be able to handle things that come up for which the entrepreneur has no previous experience to rely on as a guide.

- **Personal relations.** The successful entrepreneur usually has an emotionally stable personality, is cheerful, cooperative, and usually gets along well with (without necessarily being close to) employees and associates.

- **Communication skills are well developed,** both in oral and written presentations.

- **Technical knowledge** is usually well-rounded, and the successful entrepreneur generally is knowledgeable about the physical process of producing goods and services, or at least can effectively utilize information regarding the physical process.

How do your personal characteristics stack up against the foregoing profile of the typical successful entrepreneur? If that profile doesn't sound very much like you, maybe you had better give some long, hard thought as to whether you are cut out for making it as a business owner.

Running a business is not like working for someone else. There is no one to tell you what to do when something goes wrong. You are responsible for everything. Are you capable of handling that kind of total responsibility? Are you a self-starter, capable of planning, organizing, and carrying out projects on your own? If not, you may find that starting and running a successful business is not for you. Running a business demands a great deal in the way of initiative, hard work, self-discipline and resourcefulness. On the other hand, solving the problems that arise from day to day and making it all work out can be a source of immense satisfaction, as well as being financially rewarding.

Before reading further, get a pencil and complete Worksheet 1, which is a useful questionnaire that may help you to get a better idea of your suitability for playing the role of entrepreneur in the real world.

WORKSHEET 1
SELF-EVALUATION CHECKLIST FOR GOING INTO BUSINESS

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

Are you a self starter?

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

How do you feel about other people?

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

Can you lead others?

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

Can you take responsibility?

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

How good an organizer are you?

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

How good a worker are you?

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

Can you make decisions?

_____ I can make up my mind in a hurry if I have to. It usually turns out okay, too.
_____ I can if I have plenty of time. If I have to make up my mind fast, i think later I should have decided the other way.
_____ I don't like to be the one who has to decide things.

Can people trust what you say?

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

Can you stick with it?

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

How good is your health?

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

Now count the checks you made.

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

_____

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

_____

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

_____

Technical & Vocational Institute, Albuquerque

Rating Scale for Evaluating Personal Traits Important to the Proprietor of a Business

INSTRUCTIONS: Place a check mark on the line following each trait where you think it ought to be. The check mark need not be placed directly over one of the guide phrases, because the rating may lie somewhere between the phrases.

Initiative	Additional tasks sought; highly ingenious	Resourceful; alert to opportunities	Regular work performed without waiting for	Routine worker awaiting directions
Attitude toward others	Positive; friendly interest in people	Pleasant, polite	Sometimes difficult to work with	Inclined to be quarrelsome or uncooperative
Leadership	Forceful, inspiring confidence and loyalty	Order giver	Driver	Weak
Responsibility	Responsibility sought and welcomed	Accepted without protest	Unwilling to assume without protest	Avoided whenever possible
Organizing ability	Highly capable of perceiving and arranging fundamentals in logical order	Able organizer	Fairly capable of organizing	Poor organizer
Industry	Industrious: capable of working hard for long hours.	Can work hard, but not for too long a period	Fairly industrious	Hard work avoided
Decision	Quick and accurate	Good and careful	Quick, but often unsound	Hesitant and fearful
Sincerity	Courageous, square-shooter	On the level	Fairly sincere	Inclined to lack sincerity
Perseverance	Highly steadfast in purpose; not discouraged by obstacles	Effort steadily maintained	Average determination and persistence	Little or no persistence
Physical energy	Highly energetic at all times	Energetic most of time	Fairly energetic	Below average

BUSINESS SKILLS INVENTORY

Use this form to develop an inventory of your business skills in each of the categories listed. Use the list of job-related experiences to help you recall activities that provided you with these skills. Your level of expertise may be anything from 1 (minimal) to 5 (a great deal).

1. Managing Money	Where Learned	When	Expertise (1-5)

2. Managing People	Where Learned	When	Expertise (1-5)

Business Skills Inventory – *Continued*

3. Directing Business Operations	Where Learned	When	Expertise (1-5)

4. Directing Sales Operations	Where Learned	When	Expertise (1-5)

Business Skills Inventory – *Continued*

5. Marketing	Where Learned	When	Expertise (1-5)

6. Setting up a Business	Where Learned	When	Expertise (1-5)

Business Skills Inventory Sample

1.	Managing Money	Where Learned	When	Expertise (1-5)
2.	Managing People	Where Learned	When	Expertise (1-5)
3.	Directing Business Operations	Where Learned	When	Expertise (1-5)
4.	Directing Sales Operations	Where Learned	When	Expertise (1-5)
5.	Marketing	Where Learned	When	Expertise (1-5)
6.	Setting up a Business	Where Learned	When	Expertise (1-5)

WHAT DOES IT TAKE TO BE A BUSINESSMAN OR BUSINESSWOMAN?

1. ***Ability to get along with people.*** You must have customers, suppliers and employees. A surly or ingrown person will lose out. A pleasant, outgoing person attracts people. A willingness to give service is what brings in sales.

2. ***Health and energy.*** Not only a willingness, but actual ability to work hard.

3. ***A strong desire to build.*** To create.

4. ***An optimistic spirit.*** This is natural: pessimists don't take chances. Risks are inherent in business.

5. ***A sense of organization.*** A businessman must maintain an attractive place of business, an orderly ano tidy inventory. He must keep a number of records, and be able to direct the people under him. Frequently he must delegate duties.

6. ***Some business background.*** You don't have to be strong in all phases of business management. You can look to experts, but you need a basic understanding of functions, such as selling, accounting, buying or production.

7. ***Drive.*** Ambition plus determination to get ahead, to concentrate on the business, to enlarge it creatively, to live with it, to fulfill a competitive interest.

8. ***Confidence.*** Shrinking violets do not, as a general rule, do well in business.

9. ***Self-reliance.*** Willingness to should responsibility, to make decisions, to stand by them.

10. ***Independence.*** A desire to master one's own destiny – to be one's own boss.

11. ***Will power.*** Strength to see a thing through, rather than to vacillate or to procrastinate.

12. ***Patience.*** Business has many irritations and frustrations. If you can't take these – if you are inclined to fly off the handle easily, to become upset about small pressures – don't go into business. You will live longer.

13. ***Ability to take worries or to leave them.*** Responsibilities and anxieties go hand in hand from time to time.

14. ***Integrity.*** Honesty is the best policy in business. It's hard to fool the public permanently. The smart angle promoters just don't last long.

15. ***A feeling for community service.*** No business can remain isolated for long.

As a businessman you don't need all of these qualities to succeed, but a combination of some of them is essential. How many do you have?

What Technical Assistance Do You Need?

The following questions will help you assess your strengths and weaknesses as an entrepreneur in each of the Management Categories. If your answer to a question is "Yes," count it a strength. If your answer is "No," consider your skill and experience for that task a weakness.

I. Manufacturing and Production (Answer questions in this category only if you are manufacturing or producing a product from raw materials.)

	Strength Yes	Weakness No
1. Do you know how to plan how much you will manufacture or produce?	____	____
2. Are you familiar with the manufacturing or production processes?	____	____
3. Are you able to make decisions about plan location?	____	____
4. Are you able to plan manufacturing or production space efficiently?	____	____
5. Are you skilled at planning for materials handling?	____	____
6. Can you handle the procedures and problems related to traffic and transportation?	____	____
7. Do you know how to provide for warehousing?	____	____

II. Marketing Management

1. Can you locate your potential customers and develop a profile of their buying habits?	____	____
2. Can you analyze your competition?	____	____
3. Can you develop a selling plan?	____	____
4. Have you identified the selling techniques you will use?	____	____
5. Can you develop and manage a sales promotion plan?	____	____
6. Are you skilled in conducting marketing research studies?	____	____
7. Do you know how to develop a product purchasing plan?	____	____
8. Are you experienced in purchasing?	____	____

SOURCE: M. Catherine Ashmore and Sandra G. Pritz, comp. "Instructor's Guide," Level 2. Research and Development Series no. 240 BA, *Program for Acquiring Competence in Entrepreneurship (PACE) Revised* (Columbus: The National Center for Research in Vocational Education, The Ohio State University, 1982). 173-174.

What Technical Assistance Do You Need?

	Strength Yes	Weakness No
9. Are you familiar with pricing procedures?	____	____
10. Can you plan and manage the physical distribution plan?	____	____
11. Do you know how to develop marketing strategies for your business?	____	____
12. Do you know where to get help with advertising?	____	____
13. Is your inventory system efficient?	____	____
14. Do you know how to select and deal with suppliers?	____	____
15. Can you make the necessary decisions about location, buildings, and equipment?	____	____
II. General Organization and Management		
1. If you need to hire an employee to help you, do you know how to search for and select one?	____	____
2. Do you know how to develop job descriptions for your firm?	____	____
3. Are you familiar with procedures for determining salaries, wages, and employee benefits?	____	____
4. Can you develop a personal training program?	____	____
5. Are you skilled at supervising others?	____	____
6. Do you know how to appraise employees' performance?	____	____
7. Are you familiar with methods for motivating employees?	____	____
8. Do you know how to develop work schedules for yourself and your employees?	____	____
9. Do you know how to develop and manage company policy?	____	____
10. Can you plan a comprehensive security program?	____	____
11. Do you know a lawyer who can advise you on legal matters?	____	____
12. Can you set up and manage an information or recordkeeping system?	____	____
13. Do you know how to plan and manage public relations?	____	____

What Technical Assistance Do You Need?

	Strength Yes	Weakness No
14. Are you experienced in long-range and short-range planning?	____	____
15. Can you develop a business plan?	____	____
IV. Financial Management		
1. Do you know how much money you need to start up your business?	____	____
2. Can you develop the financial statements that are necessary for every business?	____	____
3. Do you know how to determine how much financing you need?	____	____
4. Do you know how much credit you can get from suppliers? How much you can borrow?	____	____
5. Can you figure whether your business is profitable?	____	____
6. Can you manage credit and collections?	____	____
7. Can you set up and keep your financial record system?	____	____
8. Do you know how to figure depreciation?	____	____
9. Can you manage your taxation program?	____	____

DEVELOPING CREATIVE THINKING

FOR ENTREPRENEURS

UNIT 3

Title: **DEVELOPING CREATIVE THINKING FOR ENTREPRENEURS**

Purpose: This unity is designed to help the participant leave the standard thought patterns and develop creativity and look for new and better ideas to develop entrepreneurship.

Materials:

Transparency 3-1A:	Encouraging Creativity in Young Entrepreneurs
Transparency 3-1B:	Entrepreneurship...Path to Business Creativity
Transparency 3-1C:	"My Life Work"
Transparency 3-1D:	Stages of the Creative Process
Transparency 3-1E:	Creative Thinking
Transparency 3-1F:	Mental Attitudes that Encourage Creativity
Transparency 3-1G:	Ladder Versus Incremental Innovation
Transparency 3-1H:	Business Ideas Develop from Creative Thinking
Transparency 3-2A:	Creativity can be Developed!
Transparency 3-2B:	Mental Exercises
Transparency 3-2C:	Brainstorm
Transparency 3-2D:	Creative Problem Solving
Transparency 3-2E:	Circle Exercise
Transparency 3-2F:	Circle Exercise Solution
Transparency 3-2G:	Square Exercise
Transparency 3-2H:	Square Exercise Solution
Handout 3-1:	Challenging Creativity Through Entrepreneurship: What is Creativity?
Handout 3-2:	Are You Thinking Right?
Handout 3-3:	Putting Your Brain to the Test
Handout 3-4:	Examples of Left/Right Brain Dominance Characteristics
Handout 3-5:	Left, Right, Integrated Brain Dominance Characteristics
Handout 3-6:	Arithmetic Time Test
Handout 3-7:	Case Study on Creating An Innovative New Business
Handout 3-8:	Creative Exercise Packet
Handout 3-9:	10 Ways to Develop an Optimistic Eye
Handout 3-10:	Paper Cup Exercise

Resources:

Creative Thinking, "Encouraging Creativity in Young Entrepreneurs."
Reader's Digest, "Are you Thinking Right?" February 1988.
Beacon Journal, "Putting Your Brain to the Test," February 1982.

Product: A completed Left/Right Brain Exercise and a completed math test using creativity.

Assignment: Participant will be expected to develop creativity by continuing to set aside some time for visualization, thinking and creative game playing.

Activities: The overheads on creating creativity will be shown and discussed.

Handouts 1 and 2 will be given out and the participants will discuss the theory of left brain and right brain thinking.

The participants will complete the creative timed math test and complete the paper cup exercise.

Notes to Instructor: This unit was designed to produce creative thinking. As a rule most people do not think creatively and this unit with creative assignments should challenge the participant's mind to develop their entrepreneuring mind through creativity.

Estimated Time:

Showing Encouraging Creativity Overheads	10 minutes
Discuss handouts 3-1 and 3-2	10 minutes
Completion of 'Putting Your Brain to the Test' Exercise	40 minutes
Completion of the creative 'Timed Math Test'	15 minutes
Completion of the paper cup Exercise	15 minutes
Playing the Cognitivity Game	30 minutes

UNIT 3

Creativity

CONTENT	PROCESS
What is creativity? Creativity is a way of thinking, a mental attitude that is open to change. This unit is designed to help the participant leave the standard thought patterns and develop creativity and look for new and better ideas to develop entrepreneurship.	Instructor will give an introduction about creativity and show overhead transparencies: TP 3-1A: Encouraging Creativity in Entrepreneurship TP 3-1B: Entrepreneurship...Path to Business Creativity
Entrepreneurship is a path to business creativity. Entrepreneurship can give thought to career planning, business understanding, an application of skills, community understanding, self understanding, ar orientation to change and above all creativity.	
Henry Ford was an example of an individual that looked at everything as an opportunity. When his employees would come to him with a problem, he would welcome it, saying that it would be an opportunity. One time when an employee came to him telling him that they had a big problem, he said, "That's great!" They replied, "You don't understand, the building is burning down!" He said, "That's great, we will now build the largest automobile factory in the country." And that's just what he did! He also said that "I saw great businesses become but the ghost of a name because someone thought they could be managed just as they always were managed–Businessmen go down with their business because they like the old way so well they cannot bring themselves to change."	Instructor will show overhead transparency: TP 3-1C: "My Life Work"

CONTENT	PROCESS
Stages of the creative process.	
There are four stages in the creative process. They are preparation, incubation, illumination and verification.	Instructor will show overhead transparency: TP 3-1D: Stages of the Creative Process
Creative thinking involves thinking of every moment as an opportunity, treating everything as if it were a hobby, regarding everything as a learning experience, and focusing on what you can do to make a difference and recognizing the way things are.	Instructor will show overhead transparency: TP 3-1E: - Creative Thinking
Creative thinking also includes setting goals for new attitudes about the way things are.	
The Eight Mental Attitudes that Encourage Creativity	Instructor will show overhead transparency: TP 3-1F: - Mental Attitudes that Encourage Creativity
There are eight mental attitudes that encourages creativity. They include detachment from the old ideas or old way of doing things and a commitment to understanding and trying new ideas. A willingness to let one's impulses express themselves as well as respect for what limits one's work are a part of these mental attitudes. Lastly mental attitudes that encourage creativity include a freedom to be dominated by an idea and urged to find the solution immediately as well as an ability to keep looking for the right solution with a commitment of quality.	Instructor will show overhead transparency: TP 3-1G: - Ladder Versus Incremental Innovation

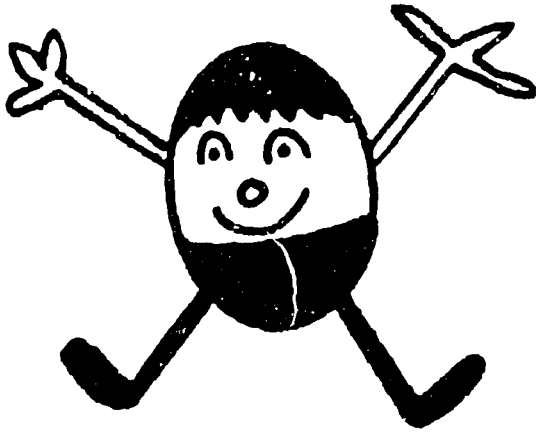
CONTENT	PROCESS
Two Types of Creativity Creativity can be divided into two areas: One creating completely new ideas which can be unexpected and often not accepted. The other area is that of improvement on existing ideas based on current products or services.	Instructor will show overhead transparency: TP 3-1H: Business Ideas Develop from Creative Thinking
How can Creativity be Developed? Creativity can be developed through study, concentration, practice, and patience. Some ways include mental exercises, brainstorming, and creative problem solving.	Instructor will show transparency packet #2 and discuss each. TP 3-2A: Creativity can be Developed! TP 3-2B: Mental Exercises TP 3-2C: Brainstorm TP 3-2D: Creative Problem Solving TP 3-2E: Circle Exercise TP 3-2F: Circle Exercise Solution TP 3-2G: Square Exercise TP 3-2H: Square Exercise Solution
Business Ideas that Can Develop from Creativity Many business ideas can develop out of creative thinking. Just a few business ideas might include services needed by others, entertainment, marketing the products of others, repair services, new inventions, extension of hobbies, interests, product improvement and new technologies.	Instructor will discuss and distribute handout: HO 3-1: Challenging Creativity Through Entrepreneurship
Psychologists agree that most of us have creativity abilities far beyond those we use in daily life.	Instruction will distribute handout: HO 3-2: Are You Thinking Right?
Research has shown that each side of the brain is responsible for a different set of functions. The left side controls our theoretical, logical, analytical decisions while the right side controls our artistic abilities.	Instructor will discuss the theory of right brain/left brain dominance and its effect on creativity.

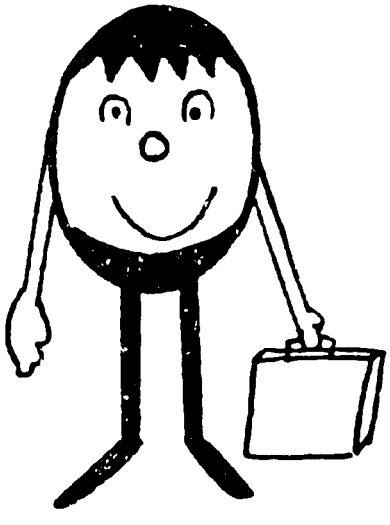
CONTENT	PROCESS
We live in a left-brain world. Education offers structured, logical learning programs. For the right brain student, this can be a boring learning situations, thus creating a disruptive and dissatisfied student.	
Occupations Tend to be Identified by Brain Hemisphere Dominance	
There is a strong relationship between hemisphere dominance and the way individuals make a living. Left-brain oriented subjects are more often lawyers, writers, bookkeepers, doctors, tax experts–jobs dealing with logical, language-related information. Those who favor the right hemisphere will more likely be poets, politicians, musicians, architects, entrepreneurs, dancers and surprisingly–top executives. The most successful people in any occupation are those who use both the left and right brain.	
Ninety percent of juvenile delinquents are right brain learners cut off by structured school systems. The right brain person has been maligned as not being as intelligent as their verbal and logical classmates who score better on the highly verbal IQ tests. It is important that we stop forcing people to fit a rigid system for learning and start adapting the classroom to suit the students.	
It is more important to remember that television limits creativity, thus leaving the right brain idle and reinforcing the logical left brain functions. Books, on the other hand, stimulates opportunity to create one's own imagery. It is also important to remember	

CONTENT	PROCESS
that the right brain flourishes in a nonthreatening environment. The left brain doesn't want too much visual input–just enough to recognize and categorize, which is a necessary defense in screening the overload of incoming data.	Instructor will distribute handout: HO 3-3: Putting Your Brain to the Test
By identifying which hemisphere you use, you can begin to understand how you learn and think. By completing the "Putting Your Brain to the Test" exercise, you will be able to identify your left-right brain tendencies.	Participants will complete HO 3-3 exercise. Following the completing of the handout and scoring, the group will share comments about their scores and their brain dominance.
Identifying Characteristics of Left Brain/ Right Brain Dominance	
There are some characteristics that one can look for in identifying examples of left/right brain dominance. A predominately left-brain person will remember names as opposed to faces, like directions to be spoken or written not shown or demonstrated and keeps feelings to self. The right brain doesn't like structure, is usually spontaneous, and likes to create own way of doing things. The left brain individual has a long attention span and looks for order, neatness and organization.	Instructor will distribute handouts: HO 3-4: Examples of Left/Right Brain Dominance Characteristics HO 3-5: Left/Right Integrated Brain Dominance Characteristics Instructor will give a brief discussion about handout and the characteristics of right brain/left brain thinking.
Mental Exercises Can Develop Brain Hemisphere Dominance	
The brain can be exercised and both sides forced to work by taking something that you know and changing its order or way of doing.	

CONTENT	PROCESS
The way to develop one's creativity is by exercising the brain through games and exercises. These exercises will challenge the mind to develop the entrepreneuring mind through creativity.	
The 'Arithmetic Test' requires individuals to complete simple math problems. However, the signs are changed. Where the plus means add now it means divide. The subtract sign now means multiply and the divide sign means add.	Instructor will distribute handout: HO 3-6: Arithmetic Time Test Participants will complete the Arithmetic Time Test and discuss difficulties of changing signs.
The creative thinking activity "Paper Cup Exercise" is another way of forcing the right side of the brain to function.	Instructor will distribute handout and discuss HO 3-7: Case Study on Creating an Innovative New Business Instructor will distribute and discuss handout HO 3-8: Creative Exercises Packet Instruction will distribute handout HO 3-9: 10 Ways to Develop an Optimistic Eye
Creativity is dreaming and thinking up new things. It is important to remember that one can be trained to develop his/her creativity by thinking out of the ordinary.	Instructor will distribute handout: HO 3-10: Paper Cup Exercise Participants will complete the Paper Cup Exercise and discuss.

Encouraging Creativity in Young Entrepreneurs





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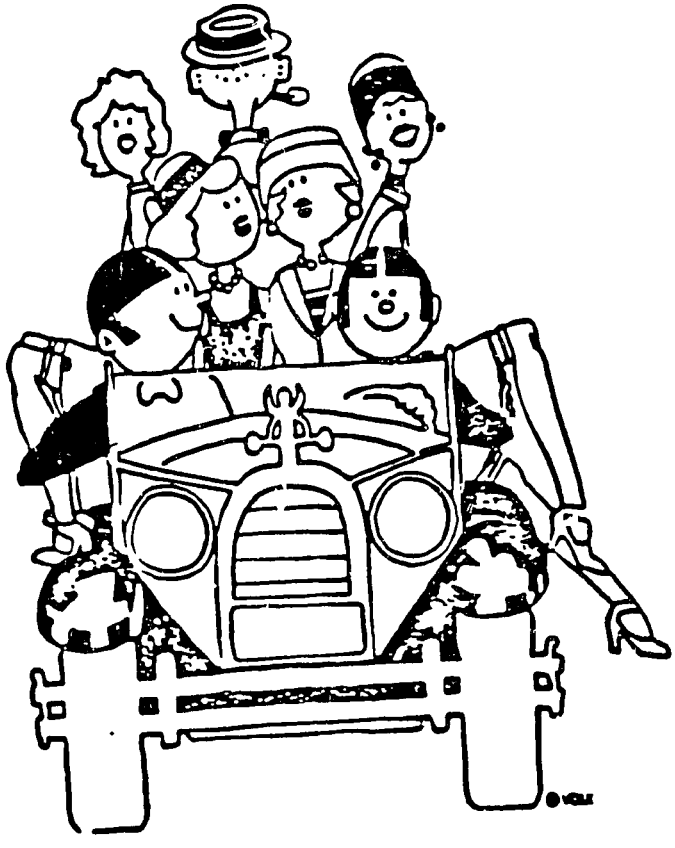
ENTREPRENEURSHIP . . .
PATH TO BUSINESS CREATIVITY

- Career Planning
- Business Understanding
- Application of Skills
- Community Understanding
- Self Understanding
- Orientation to Change
- Creativity

"I saw great businesses become but the ghost of a name because someone thought they could be managed just as they always were managed--Businessmen go down with their business because they like the old way so well they cannot bring themselves to change."

"My Life Work" (Henry Ford) 1922



STAGES OF THE CREATIVE PROCESS

1. Preparation - collect data, potential images, raw materials to solve the problem. Mood is excitement and perplexity.

2. Incubation - release conscious hold on the problem, rest--relax, think of other things. Often get sudden glimpses of parts of solution.

3. Illumination - the moment of discovery, often spontaneous inspiration, that is accompanied by feelings of certainty and joy.

4. Verification - work out the details, a conscious process to organize and revise the idea.

Dr. G. Wallis

CREATIVE THINKING

- Think of every moment as an opportunity.
- Treat everything you do as if it were a hobby.
- Regard everything as a learning experience.
- Focus on what you can do to make a difference
- Recognize the way things are.
- Set goals for new attitudes about the way things are.

MENTAL ATTITUDES THAT ENCOURAGE CREATIVITY

- Detachment from conventional ideas
- Commitment to understanding new ideas
- Passion or willingness to let one's impulses express themselves in one's life
- Respect for what limits one's work
- Freedom to be dominated by the idea
- Urge to find the solution immediately
- Ability to keep looking for the right solution
- Commitment to quality

LADDER VERSUS INCREMENTAL INNOVATION

Ladder =

- Completely new ideas
- Builds on basic knowledge
- Unexpected
- Often not accepted

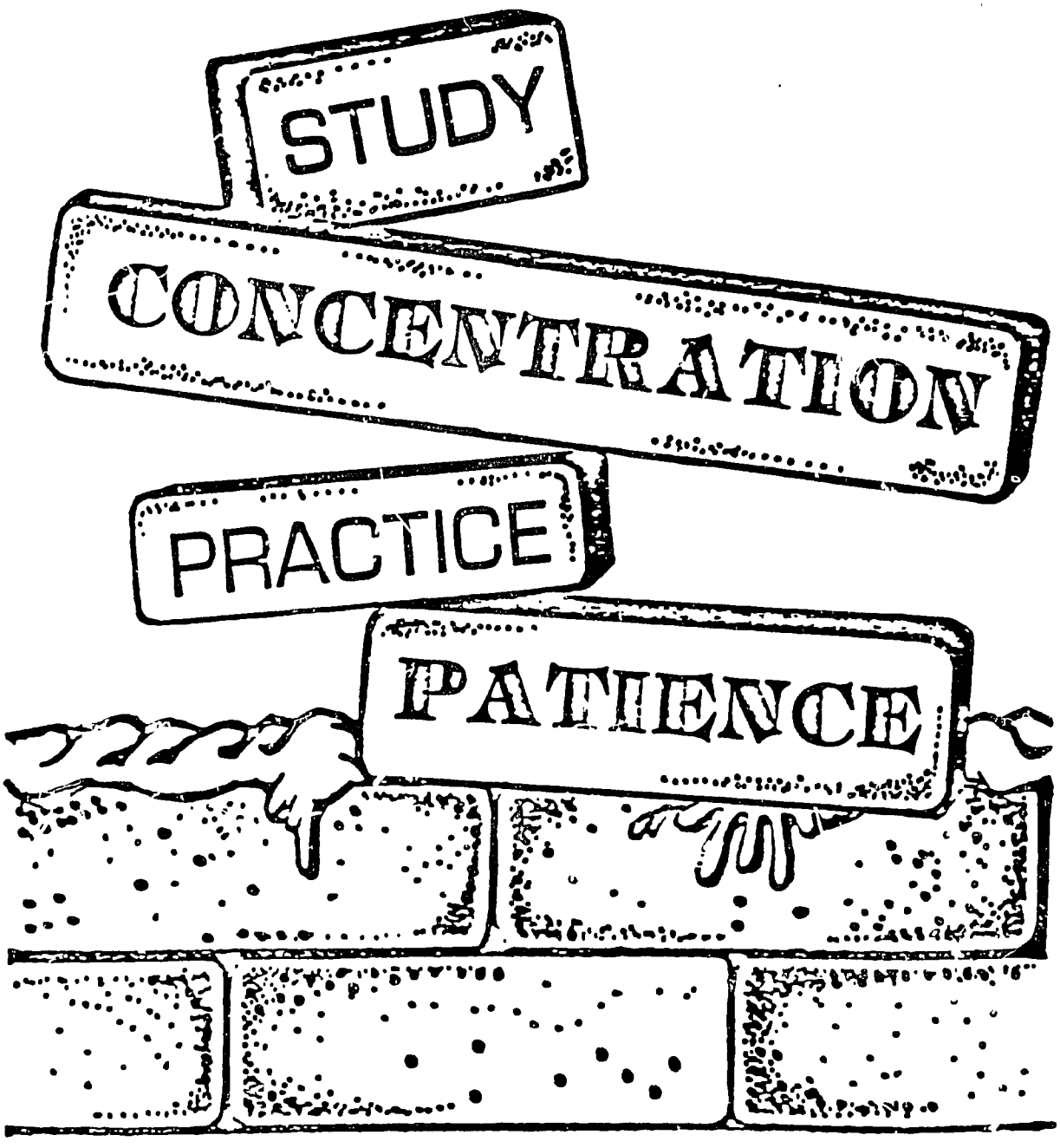
Incremental =

- Constant improvements
- Can be planned
- Based on current products or services
- Often not spectacular but more critical to success
- Market driven

BUSINESS IDEAS DEVELOP FROM CREATIVE THINKING

- Services Needed by Others
- Entertainment
- Marketing the Products of Others
- Repair Services
- New Inventions
- Interests
- Product Improvement
- New Technologies

Creativity can be DEVELOPED!



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MENTAL EXERCISES

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BRAINSTORM

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CREATIVE PROBLEM SOLVING

1. DEVELOP A **CREATIVE ATMOSPHERE/ATTITUDE**
2. IDENTIFY THE **PROBLEM**
3. DETERMINE THE **FACTS**
4. IDENTIFY POSSIBLE **SOLUTIONS**
5. LET THE PROBLEM **SIMMER**
6. DETERMINE THE **BEST** SOLUTION

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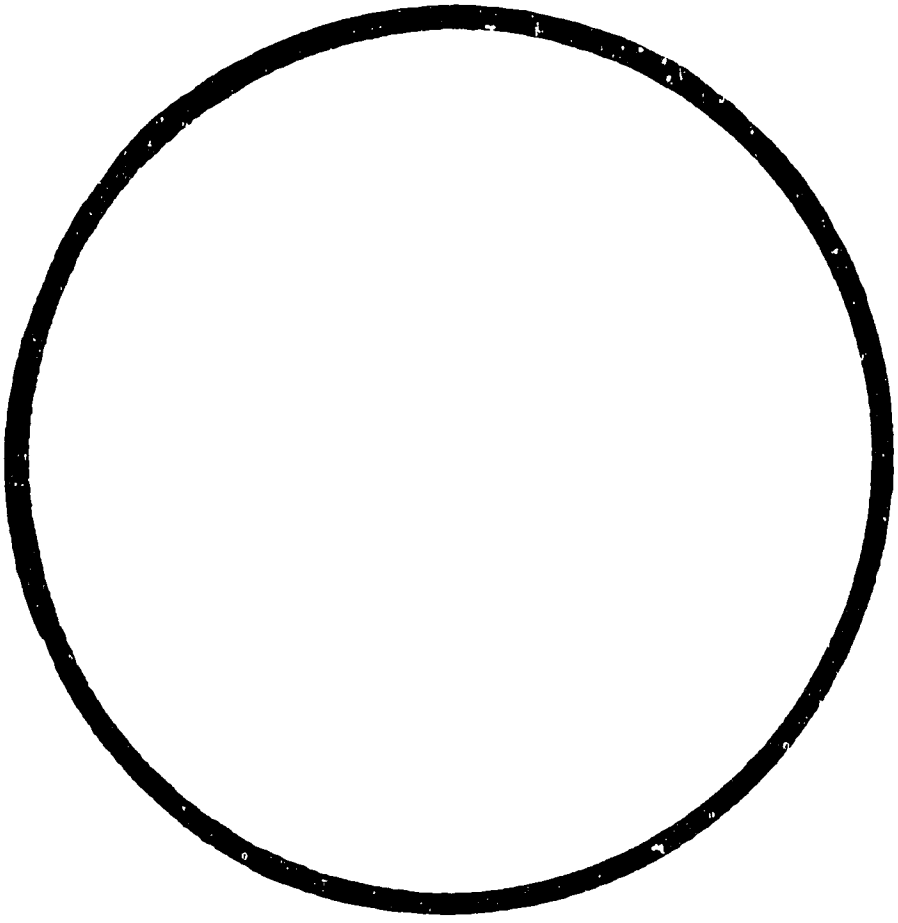
CIRCLE EXERCISE



Determine how many parts this circle can be divided into by using only <u>four</u> lines.

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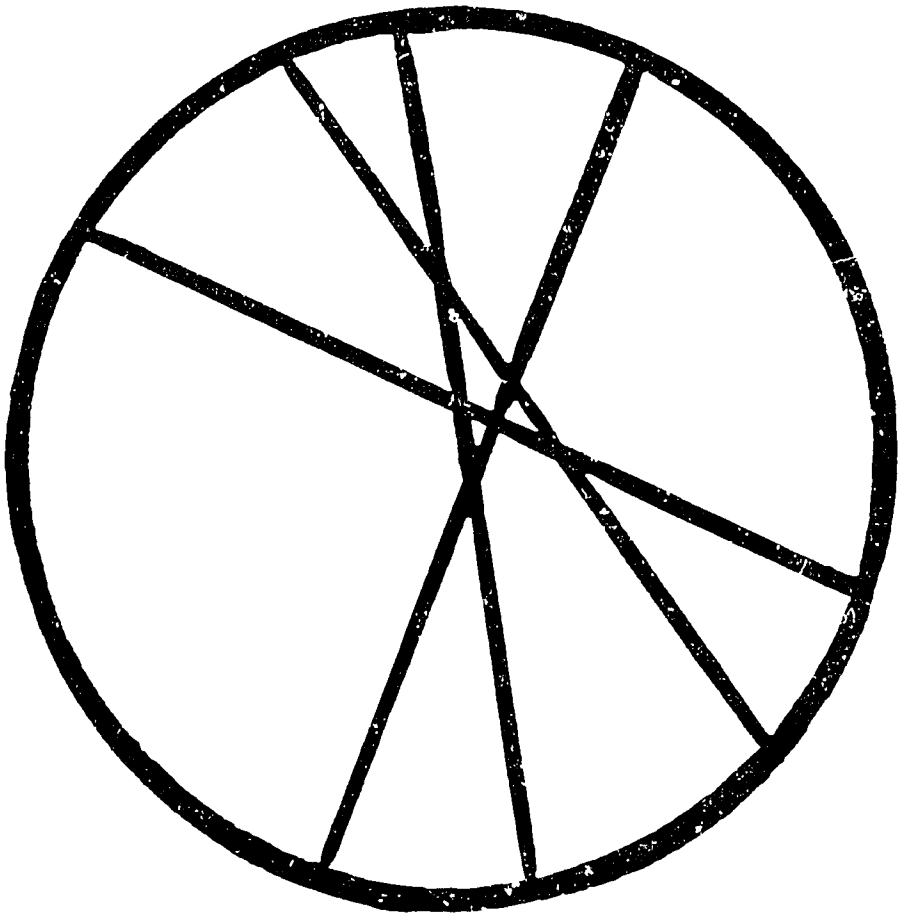
CIRCLE EXERCISE SOLUTION



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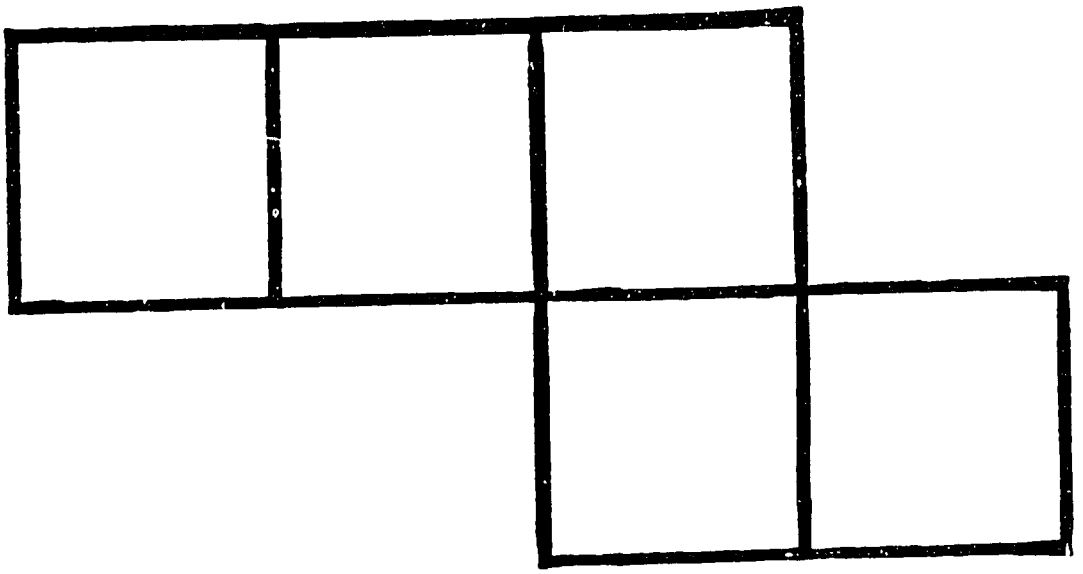
SQUARE EXERCISE



Devise a way to change the formation from five squares to four, by moving only two of the lines

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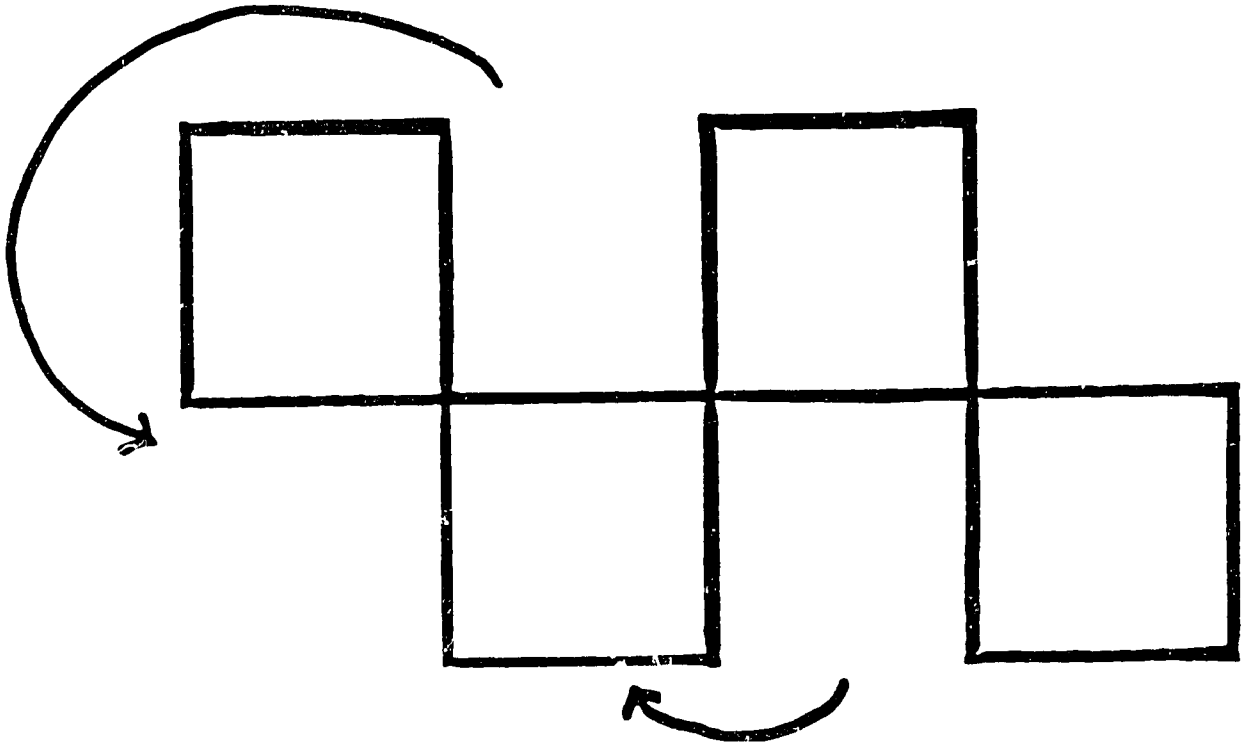
SQUARE EXERCISE SOLUTION



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What is Creativity?

Creativity involves a way of thinking, a mental attitude that is open change. Herbert Leff tells us there are a number of attitudes that encourage creativity:

- ***Detachment from conventional ideas*** is a first step. One must be willing to try new things and think of new ideas.
- ***Commitment to understanding new ideas*** suggests a priority for looking for change in your approach to everything.
- ***Passion to let one's impulses mean something*** is a willingness to consider ideas that come from your unconscious or subconscious thoughts.
- ***Respect for what limits one's work*** brings a sense of reality to creative thinking.
- ***Freedom to be dominated by the idea*** relates to the persistence that is the hallmark of many entrepreneurs.
- ***Urge to find the solution immediately*** explains the determination that makes creative people work long hours without a care.
- ***Ability to look for the right solution*** suggests the problem-solving approach that looks at many options before picking one.
- ***Commitment to quality*** is an attitude you find in entrepreneurs when you ask them why they are successful.

As we look at these attitudes we can see not only the mental thinking of entrepreneurs we know, but also a very positive openness to change that would make employees more productive workers, also.

Stages of the Creative Process

Dr. G. Wallis identified the process of being creative as a four-step activity that operates continuously in solving our problems. (Samuels, 1975)

His first step is called "preparation" where a person is collecting information and ideas to solve a problem. The mood at this stage is excitement and perplexity. You are

searching possibilities and options. And you are reaching in all possible directions for solutions to the problem you have set for yourself.

Problem solving strategies would suggest you define the options and choose one at this stage.

But Wallis suggests that the second step "incubation", a time to release conscious hold on the problem. This is a time to rest, relax, and think of other things. During such times you often get little glimpses of the solution, ideas that come and go. (My best time for this is in the shower.)

The third step, "illumination", is the moment of discovery, and often spontaneous inspiration, that is accompanied by feelings of certainty and joy when you know you have found the right solution or approach. We have all experienced that "lightbulb coming on" feeling when we find an idea that appears, seemingly, from nowhere. What we do not consider is that our unconscious thoughts have been at work all the time and the solution finally comes from putting parts of our knowledge base together in new ways–without knowing that we are doing it.

The fourth step is a necessary process to make the idea work, rather than operating strictly on impulse or intuition. Called "verification", this step suggests you work out the details in a conscious and rational way. It is a time to organize and perhaps revise the idea. And it may lead to new problems that require more creative processing.

Some common assumptions about creativity include:

- ***Visualization is a means of willfully putting oneself in a state of mind to receive images from the unconscious.*** When we are asked to visualize we find ourselves pausing to search our databank of experiences for pictures that help us make our ideas more clear.

- ***Visualization can be used to increase a person's ability to receive creative ideas.*** Visualization is often used with goal setting where we allow ourselves to actually see the outcome we wish to have happen. In the process we open ourselves to new ways to get there.

- ***Creative ideas are formed in the unconscious.*** The "incubation time" allows our brains to work on our problems using knowledge we have already stored in our brains. We cannot usually see how we got these ideas, but must trust our intuition and unconscious thought processes. The importance of rest and relaxing activities to our creative productivity is obvious.

- ***The incubation stage is the most critical to creativity.*** Although we would not have any ideas if we didn't identify problems and gain knowledge to help ourselves, it is believed that really creative solutions come to you only if you allow the "mess" to go into incubation. It is thought that our brains work like computers and that each day's work gets loaded into the "hard drive" while we sleep. Without rest and sleep we get too much information in our "floppy disk" and our ability to process it gets overloaded. Whatever the actual system for creative thinking may be, most of us can relate to the activity of letting a problem rest for a while and then suddenly finding a great solution.

- ***Visualization works best in a quiet, undisturbed comfortable place*** where you can feel completely relaxed. This is not likely to be a busy office with a phone ringing constantly.

- ***Visualization and creativity work best when evaluation is postponed.*** This explains the rules of brainstorming for creative ideas where no one is allowed to judge the value or effectiveness of an idea. Too many good ideas have been closed off by people who can tell you what is wrong with anything. In your own personal creativity, avoid such evaluation until all the creative ideas are laid out Then you can move on to stage 4 where it is appropriate to look at the pluses and minuses before putting a plan into action.

Helping Encourage Creativity

As we work with business people to encourage creative thinking there are some approaches to learning that educators should support.

First, people should think of every moment as <u>an opportunity</u>. We are constantly exposed to new experiences which allow us to grow as people. People should learn to value that growth and appreciate a variety of opportunities.

Second, a positive, growing person treats everything they do as if it were a hobby. One can gain knowledge and enjoy anything if you approach it with a creative mind.

Third, creative people regard everything that happens as a learning experience. If you can look at failures as an opportunity to learn you can get away from the self-defeating process of blaming yourself or others, and get on with creating new and more successful approaches.

Fourth, focus on what you can do to make a difference rather than focusing on the impossible or what you believe you can't do. A positive attitude encourages problem solutions and new ideas.

Fifth, recognize the way things are rather than living in a fantasy world. If you cannot see how things really are, you probably cannot define a real problem that needs a creative solution. It is only from reality that we can operate successfully.

Finally, we should encourage our students to set goals, to enable them to seek new attitudes about the way things are and what they creatively might do about it. Without goals and problem identification it is likely that we would never find creative ways to do anything.

Brainstorming activities turn up hundreds of business ideas that generally fall in the following categories:

> ***Service needed by others*** – You may have developed skills or have an interest in an activity which someone would gladly pay you to do for them. For example, many women feel it necessary to see a hair stylist, and only their "hair dresser knows for sure."
>
> A student who loves dogs could start a kennel and take care of the pets of families going on vacation.

Entertainment – Providing entertainment as a clown at children's birthday parties as a hobby could become a business. Someone who enjoys singing might think about putting an act together for a popular restaurant. Or what about an entertaining cooking class where people attend to have fun and learn.

Marketing the products of others – A student who always enjoyed selling magazines or Girl Scout cookies might consider a business which has him/her promoting and selling someone else's products or services. An individual could market Black & Decker tools or gourmet cooking instruments as an entrepreneurial enterprise.

Repair services – Most people need the services of an electrician or auto repair person after all the shops and offices are closed. An enterprising person may choose to start a business which operates on off-hours. Or, an entrepreneur might develop a pick-up and delivery service for his/her customers who need something repaired but do not have the time to get to a repair shop except on their days off from work.

New inventions – A student tired of using a certain tool to work in shop because it is slow, may invent a different tool which is more effective and quicker to use. A business could develop from that idea. Or, an entrepreneur may take everyday articles such as scissors, knives, and even a wrench and convert all the products to be used by left-handed people only and make a business marketing products to this population.

Extension of hobbies – A student who has a hobby of buying silk scraps and making men's and women's ties and scarfs may find there is a huge demand for her/his projects. Or, a food services student who always seems to be a short-order cook at home may decide to develop a business out of this hobby.

Interests – An agriculture student who has an interest in plants and reads all he/she can about plant diseases, may start a business someday as a plant doctor. In addition, an aerobics exercise addict may choose to start aerobics exercise classes for other people interested in getting in shape at a charge per class.

Product improvement – An agriculture student who loves birds may discover that the usual manufactured birdseed does not attract the large variety of birds as does the feed he/she has mixed. Perhaps, a gourmet feed business will be born–who knows?

New technologies – A student who develops skill in computer uses may decide to open a work processing service or develop computer software with a computer at home.

It matters now how big or small the new enterprise–whether it grows rapidly or merely sustains its founder. Entrepreneurs of all kinds have brought the United States into being; indeed they are the foundation of its future.

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ARE YOU THINKING RIGHT?

Not if–like many of us–you rely heavily on the logical left side of your brain. Here's how to wake up your more creative right side–and soar!

By Stanley L. Englebardt

A 40-year-old university professor, without prior musical training, decides to take piano lessons. After six months he's able to play classical pieces well enough to amaze his friends.

A ten-year-old boy, having trouble learning to read and write, is enrolled in a special school where 50 percent of his time is devoted to the arts. At graduation, he shows real promise as an artist–and his "3-R" skills are vastly improved.

Unusual individuals whose talents would have been uncovered sooner or later? Maybe, but psychologists agree that most of us have creative abilities *far beyond* those we use in daily life. The problem is that we don't know how to dip into the part of the brain where most of these skills are located. Instead of allowing our minds to soar, we process information in logical, computer-like fashion.

Evidence of the duality of our minds comes from some remarkable "split-brain" studies conducted in the 1960s by Nobel Prize-winner Roger Sperry and his colleagues at the California Institute of Technology. Working with epileptics who'd undergone surgery in which the brain's hemispheres were separated–to dampen the life-threatening electrical discharges of a grand mal seizure–the Cal Tech team was able to demonstrate how each side is responsible for a different set of functions and reactions. More to the point, they showed that the seemingly mute right hemisphere–the so-called artistic, emotional brain–can process data and communicate its results to us through dreams, symbols, gestures and sudden insights.

Most of us experience a shift to the right mode at one time or another without realizing it. Consider these examples:

- You've misplaced a common item. Despite thinking sequentially through all the things you did earlier, you can't remember where it is. That evening, while you're musing in front of a crackling fire, the solution hits you: you left the item on the workbench. Where did this flash of insight come from? It was generated by your right brain, using data supplied by your left.

- During a long auto trip you suddenly realize that time and distance have gone by without your being aware of it. "My mind was a million miles away," you tell a friend. In fact, it shifted only a few inches–from the left toward the right side–which then "entertained" you during the journey with a vivid series of images and insights.

- Your checkbook won't balance. Later, during your daily job, the reason comes to you. You "see" yourself at the supermarket, writing the check that you forgot to enter. What brought on this solution? The right-brain reverie that most people experience during a long walk or job.

Why don't we use the right brain more often? "A large part of the answer has to do with the attitude of Western society toward left- and right-brain learning," says Judy Haims, a Connecticut brain-research specialist who works with early adolescents. From our earliest days we're fed an academic diet of reading, writing, arithmetic and straightforward analysis, with just a sprinkle of art, music and literature. And when it comes to evaluating our scholastic development, we depend almost exclusively on written tests designed to measure left-brain thinking. "So it is little wonder," says Haims, "that over the years our right brain has become, in fact, the minor hemisphere."

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Nevertheless, we do have another and oftentimes more effective way of thinking. "In the right-hemisphere mode of information processing," writes Betty Edwards in her acclaimed book, *Drawing on the Right Side of the Brain*, "we use intuition and have leaps of insight–moments when everything seems to fall into place without figuring things out in logical order." What's happened is a flash of insight, an intuitive burst, using the right brain. And these are the kinds of hunches, made quickly and often without a large input of data, that set individuals apart from the crowd.

Indeed, history overflows with examples of people who we now believe used right-brain mental processes to achieve "stardom" in their field. Albert Einstein described his working methods this way: "The words or the language, as they are written or spoken, do not seem to play any role in the mechanism of thought. The psychical entities which serve as elements in [my] thought are certain ***signs*** and more or less clear ***images*** which can be 'voluntarily' reproduced and combined." Einstein often told interviewers he had to "see" three-dimensional images in his mind before he could write equations.

In his book *The Act of Creation*, Arthur Koestler refers to such moments as "incubation periods." "When all hopeful attempts at solving the problem by traditional methods have been exhausted," he writes, "thoughts run around in circles." Rather than continue wrestling with the problem, he suggests putting it aside for a time. This allows the right mind to "incubate" the information. And if an insight or answer is to be found, it usually comes during a quiet moment–walking, sewing, dreaming.

Can right-brain thinking be taught? Yes, say the experts, but it takes time and practice.

▸ At the Mead School in Greenwich, Conn., elementary and junior-high students spend at least half their time in classes that feature visual, musical, physical and theatrical arts. By working on subjects that don't depend on language, they learn how to think with ***both*** sides of their brains.

Does this approach work? According to the Connecticut Association of Independent Schools, Mead graduates do very well when they move on to other schools.

▸ In his book, *The Inner Game of Tennis*, tennis pro Tim Gallwey suggests deliberate distraction of the left brain as a means of giving the right brain a chance. Typically, a recreational player approaches tennis–and other sports, as well–with a litany of reminders running through his head: eye on ball, knees bent, racket back, follow through. This self-talk represents the well-tutored left brain reminding him of all the mechanical steps needed for a smoother stroke. Sometimes it works; most of the time it doesn't.

Gallwey suggests dampening this left-brain chatter by saying "bounce" whenever the ball bounces and "hit" whenever it strikes the racket. With the left brain silenced, the holistic right moves in to help you play instinctively.

▸ In her drawing book, Edwards suggests another method of boosting your creative quotient. Say you're trying to copy a line drawing done by a famous artist. Ordinarily, Edwards explains, the left hemisphere dominates this task by recognizing various facial features, such as the nose or the eyes, and then "telling" you to reproduce them in a literal fashion. For all but the naturally artistic, the result is the kind of basic drawing you usually see hanging on a kindergarten wall.

Now consider what happens when you "trick" the left brain by turning the picture upside down. Instead of an identifiable picture, it's confronted by a mishmash of meaningless shapes and lines–not the kind of information a logical left side can handle. What happens? It shuts down, says Edwards, and turns the project over to the more flexible right brain. Instead of worrying about reproducing a nose or eye, the right side simply copies the various lines and curves as it sees them. Final result when the paper is turned right-side-up: an amazingly good reproduction of the original line drawing.

Obviously, not everyone is going to turn into a creative genius. But all of us can "think right" part of the time. Many people manage to switch sides while listening to music; others achieve it while working in the garden or taking a bath. In all these cases the sensation is the same: a dreamlike state in which you see whole scenes in your "mind's eye" rather than specific details, numbers or words.

My own method of "right-braining" is to put on a Walkman and jog along the country roads near my home. If I've been trying to solve a problem or work out some decision, chances are the answer will come to me in a flash somewhere along the route. Try it!

HOW TO TELL WHICH SIDE YOU FAVOR

Brain researcher Ned Herrmann tested more than 7000 people to find out which side of the brain they favored. He found a strong relationship between hemisphere dominance and the way subjects made a living: left-brain-oriented subjects were more often lawyers, writers, bookkeepers, doctors, tax experts, etc.–jobs dealing with logical, language-related information. Those who favored the right hemisphere turned out to be poets, politicians, musicians, architects, entrepreneurs, dancers and–surprisingly–top executives. Herrmann's studies showed that the most successful people in any occupation are those who use ***both*** the left and right brains.

One test for hemisphere dominance is to observe how you turn your head and eyes when pondering questions asked by someone in front of you. Research suggests that if you generally turn to the left, you have a right-brain tendency; if you turn to the right, chances are you prefer work that involves use of logic or language.

Another test for dominance involves directions for assembling a product. A left-hemisphere-oriented person usually follows instructions in a step-by-step fashion–from written sentence to written sentence. Someone with strong right-side input will probably ignore the written directions and assemble the pieces by studying the diagram or picture.

If you think you're right-brained, try this teaser. Read the sentence below carefully and count the number of f's:

FINISHED FILES ARE THE RESULT OF YEARS
OF SCIENTIFIC STUDY COMBINED WITH
THE EXPERIENCE OF MANY YEARS.

Did you find all six f's? If not, don't be surprised. Only 15 percent of those who take this test do. If you counted less than six–most count three–you probably missed the f in each "of." Since "of" is pronounced "ov," the verbal left hemisphere took the verbal clue and overrode the right, "seeing" hemisphere, thus forcing the wrong conclusion.

–Adapted from *The Tao Jones Averages* by Bennett W. Goodspeed (E.P. Dutton Publishers, N.Y.)

Putting Your Brain To The Test

by Toby Reese

You can begin to understand how you learn and think–and whether you're dominated by your left brain, right brain or a little of both sides–by taking this test, available through the courtesy of Dr E. Paul Torrance of the University of Georgia.

Simply circle one response to each of the following 40 statements. Select the responses that most accurately describe your strengths and preferences. There are no "right" or "wrong" answers. Your responses will indicate how your brain functions. A key to interpreting your answers is at the end of the quiz.

1. (a) I read for main ideas.
   (b) I read for specific details and facts.
   (c) I read for main ideas and for details and facts equally.

2. (a) I usually learn or remember only those things specifically studied.
   (b) I have a good memory for details and facts in the environment not specifically studied.
   (c) I've noticed no difference in my abilities in these areas.

3. (a) I like to read fantasy stories.
   (b) I like to read realistic stories.
   (c) I have no preference between fantasy and realistic stories.

4. (a) It's equally as much fun to dream and to plan realistically.
   (b) It's more fun to dream.
   (c) It's more fun to plan realistically.

5. (a) I solve problems logically, rationally.
   (b) I solve problems intuitively.
   (c) I'm equally skilled in solving problems intuitively and logically.

6. (a) I listen to music or radio while reading or studying.
   (b) I must have total quiet in order to read or study.
   (c) I listen to music or radio only if reading for enjoyment, not if studying.

7. (a) I would like to write fiction books.
   (b) I would like to write non-fiction books.
   (c) I have no preference between writing fiction and non-fiction.

8. If seeking mental health counseling...
   (a) ...I would prefer group counseling and sharing feelings with others.
   (b) ...I would prefer the confidentiality of individual counseling.
   (c) ...I'd have no preference for group over individual counseling.

9. (a) I enjoy drawing my own images and ideas.
   (b) I enjoy copying and filling in details.
   (c) I enjoy drawing my own images and copying and filling in equally.

10. (a) I believe I would be easily hypnotized.
    (b) I believe I could probably be hypnotized but it would be difficult.
    (c) I don't believe I could be hypnotized.

11. (a) It's just as exciting to me to improve something as to invent something new.
    (b) It's more exciting to improve something.
    (c) It's more exciting to invent something new.

12. (a) I prefer to learn through free exploration.
    (b) I prefer to learn systematically through ordering and planning.
    (c) I have no preference between learning through free exploration and learning through more systematic ways.

13. (a) I have no preference between mystery stories and action stories.
    (b) I prefer action stories.
    (c) I prefer mystery stories.

14. (a) I have no preference between algebra and geometry.
    (b) I prefer algebra.
    (c) I prefer geometry.

15. (a) I like to organize things sequentially.
    (b) I like to organize things to show relationships.
    (c) I have no preference for sequential over relational organization.

16. (a) I'm skilled in sequencing ideas.
    (b) I'm skilled in showing relationships among ideas.
    (c) I'm equally skilled in sequence and showing relationships.

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17. (a) I'm good at remembering verbal materials.
    (b) I'm good at tonal memory.
    (c) I'm equally good at verbal and tonal memory.

18. (a) I pace personal activity to time limits with ease.
    (b) I use time to organize myself and personal activities.
    (c) I have difficulty pacing personal activities to time limits.

19. (a) I have frequent mood changes.
    (b) I have few mood changes.
    (c) I'm stable; almost no mood changes.

20. (a) I'm skilled in communicating with animals.
    (b) I'm moderately good in communicating with animals.
    (c) I cannot communicate very well with animals.

21. (a) I have no preference for cats over dogs or vice versa.
    (b) I prefer cats.
    (c) I prefer dogs.

22. (a) I enjoy clowning around.
    (b) I can clown or be serious, depending upon the occasion.
    (c) I do not enjoy clowning around.

23. (a) I'm conforming or nonconforming, depending upon the situation.
    (b) I'm generally conforming.
    (c) I'm generally nonconforming.

24. (a) I'm frequently absentminded.
    (b) I'm occasionally absentminded.
    (c) I'm almost never absentminded.

25. (a) I have no preference for well-structured over open-ended assignments.
    (b) I prefer open-ended assignments.
    (c) I prefer well-structured assignments.

26. When viewing advertisements I ar ...
    (a) ...most often influenced by attractive signs, pleasant scenes and sensual overtones.
    (b) ...most often influenced by the information comparing several products.
    (c) ...primarily influenced by the advertising medium only when accompanied by information on the quality of the product.

27. (a) I enjoy analyzing stories.
    (b) I enjoy creative storytelling.
    (c) I enjoy equally analyzing stories and creative storytelling.

28. (a) It's equally valuable to discuss stories and illustrate them.
    (b) It's more valuable to discuss stories read.
    (c) It's more valuable to illustrate stories read.

29. (a) It's equally valuable to tell stories and to act out stories.
    (b) It's more valuable to tell stories.
    (c) It's more valuable to act out stories.

30. (a) Moving rhythmically and rhyming are equally enjoyable.
    (b) Moving rhythmically is more fun.
    (c) Rhyming is more fun.

31. (a) Producing ideas and drawing conclusions are equally enjoyable.
    (b) Drawing conclusions is more fun.
    (c) Producing ideas is more fun.

32. (a) I'd like to do interpretive dancing.
    (b) I'd like to do ballet dancing.
    (c) I have no preference for ballet over impromptu interpretive dancing.

33. (a) I enjoy interacting affectively with others.
    (b) I enjoy interpreting the affective interaction of others.
    (c) I have equal preference for affective interaction and interpretation of the affective interaction of others.

34. (a) I'm strong in recalling verbal materials (names, dates, etc.)
    (b) I'm strong in recalling spatial imagery.
    (c) I'm equally strong in recalling verbal and spatial imagery.

35. (a) I can think better while lying down.
    (b) I can think better while sitting straight up.
    (c) I have an equal preference for lying down and sitting straight up.

36. (a) I'd like to be a music critic.
    (b) I'd like to be a music composer.
    (c) I'd enjoy equally music criticism and composition.

37. (a) I'm skilled in the intuitive prediction of outcomes.
    (b) I'm skilled in the statistical, scientific prediction of outcomes.
    (c) I'm equally skilled in intuitive and statistical-scientific prediction.

38. (a) I'm generally attentive to verbal explanations.
    (b) I'm generally restless during verbal explanations.
    (c) I can control attention during verbal explanations.

39. (a) I've no preference between outlining and summarizing readings.
    (b) I prefer outlining over summarizing.
    (c) I prefer summarizing over outlining.

40. (a) I've no preference for demonstration over verbal instructions.
    (b) I prefer demonstration.
    (c) I prefer verbal instructions.

If that exercise didn't boggle your mind, you'll probably want to know what it all means. Some responses will indicate a predominant use of the right brain (and will be marked *R* in the key below), some will indicate the left (and will be marked *L*) and some will indicate an integrated use of both sides of the brain (and will be marked *I*).

As we said at the start, no answers are "right" or "wrong." Simply total your number of *R*, *L* and *I* responses.

If the *I* responses outnumber the others, consider yourself fortunate. If you appear to be more dependent on one side of the brain more than the other, you may be interested in the suggestions of Jacqueline Vernon of the University of Akron, which are included in the story that concludes at the right.

1.	(a) R	(b) L	(c) I	21.	(a) I	(b) R	(c) L
2.	(a) L	(b) R	(c) I	22.	(a) R	(b) I	(c) L
3.	(a) R	(b) L	(c) I	23.	(a) I	(b) L	(c) R
4.	(a) I	(b) R	(c) L	24.	(a) R	(b) I	(c) L
5.	(a) L	(b) R	(c) I	25.	(a) I	(b) R	(c) L
6.	(a) R	(b) L	(c) I	26.	(a) R	(b) L	(c) I
7.	(a) R	(b) L	(c) I	27.	(a) L	(b) R	(c) I
8.	(a) R	(b) L	(c) I	28.	(a) I	(b) L	(c) R
9.	(a) R	(b) L	(c) I	29.	(a) I	(b) L	(c) R
10.	(a) R	(b) I	(c) L	30.	(a) I	(b) R	(c) L
11.	(a) I	(b) L	(c) R	31.	(a) I	(b) L	(c) R
12.	(a) R	(b) L	(c) I	32.	(a) R	(b) L	(c) I
13.	(a) I	(b) L	(c) R	33.	(a) R	(b) L	(c) I
14.	(a) I	(b) L	(c) R	34.	(a) L	(b) R	(c) I
15.	(a) L	(b) R	(c) I	35.	(a) R	(b) L	(c) I
16.	(a) L	(b) R	(c) I	36.	(a) L	(b) R	(c) I
17.	(a) L	(b) R	(c) I	37.	(a) R	(b) L	(c) I
18.	(a) I	(b) L	(c) R	38.	(a) L	(b) R	(c) I
19.	(a) R	(b) I	(c) L	39.	(a) I	(b) L	(c) R
20.	(a) R	(b) I	(c) L	40.	(a) I	(b) R	(c) L

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by Toby Reese

How are personalities created? What makes one person a moody daydreamer, uncomfortable with schedules and unresponsive to deadlines, sensitive to beauty, color, form and poetry? What makes another a math whiz, logical, punctual, even-tempered and a list maker?

New research into the workings of the human brain has found a key to that puzzle and made sense of a multitude of human behavior patterns.

As often happens, this new perspective divides humanity into two camps: left-brain people and right-brain people. As also often happens, there's a top dog and an underdog. It's a left-brain world, and right-brain people are systematically short-changed by schools and society.

It's been known for decades that the brain, which looks a lot like an oversized walnut in its shell, has specific locations for specific functions.

The primitive functions we perform automatically–breathing, digesting food, circulating blood–are controlled by the brainstem, a sort of trunkline for nerve fibers that connects with the spinal cord at the base of the skull.

Just above that, the cerebellum controls balance and coordination.

The largest part of the brain, the cerebrum, handles the complex thought processes that separate us from lower forms of life. It's divided into right and left hemispheres which look nearly identical.

Researchers–led by Dr. Roger Sperry of the California Institute of Technology–have concluded in recent years that each half of the cerebrum is, in effect, an independent brain, with its own sphere of influence on our personalities.

Left-brain skills are those which, at least since the Renaissance, have been most favored by Western civilization. Within the left brain lies the power of speech. The left brain is analytical, rational, practical and logical.

People dominated by their left brains don't long for a mystical union with the cosmos; they just want the facts. They tend to be articulate speakers and writers. Though they're caring, they don't have a knack for social interaction and they dislike cocktail parties. They prefer to work alone. They're basically optimistic and cheerful. They think in a serial, step-by-step way. Only 65 percent of this group remember dreams.

Most scientists, mathematicians and computer experts are left-brained. So are lawyers. All those professions use the left brain's logical ability to assemble bits of disparate information into a coherent whole.

The right brain is intuitive and emotional; it takes a holistic approach to life, sensing things all at once.

Right-brain types are creative–flexible, original, and fond of elaboration. They are the artists, dancers, athletes, actors, musicians (composers rather than performers or critics) and high-level managers in business.

Right-brain people are more easily hypnotized. They're more likely to say "The face is familiar, but I can't remember your name"–because the right brain has a special area for recognizing faces.

Right-brain people enjoy working in groups. They lean forward when talking, and get turned on by sunsets or autumn leaves.

Because they understand metaphor, inflection and emotional tone, they enjoy poetry. They are morose, pessimistic and prone to hypochondria. Ninety-five percent of them remember their dreams.

Freeway driving, daydreaming, reading fiction, jogging, needlework and listening to music are all activities that rely on the right brain, producing an altered state of awareness that artists describe as being at one with the work," making them unaware of the passage of time.

If you don't seem to fit neatly into one of the two categories, it's because some people are more "integrated" than others–more balanced in their use of the brain's hemispheres. Behind these discoveries about the brain's double life, there lies a scientific detective story.

A good place to begin is 1848, the year when a railroad construction worker named Phineas Gage became the victim of an odd accident.

Tamping gunpowder into a deep, narrow hole, he rammed a long iron rod into the charge. But the iron caused a spark that ignited the powder; the rod pierced his skull just above the left eye and protruded through the back of his head.

The rod was removed and Gage miraculously lived. But his personality, good-natured before the accident, underwent an unpleasant transformation. He became profane, irritable and mean-tempered.

After his death years later of natural causes, his skull was put on display at Harvard Medical School.

Gage would be remembered only as a medical oddity except for similar brain injuries to soldiers caused by shrapnel in World War I. The wounds produced a large group of similarly brain-damaged patients whom doctors studied.

It was found that, like Gage, those whose injuries lay in the left half of their brains underwent the same kind of personality changes. They often lost the ability to speak.

Soldiers with injured right brains lost their sense of direction, sometimes getting lost even in their hospital rooms. They lost their ability to recognize familiar faces–occasionally even their own faces seen in a mirror.

Mankind went on to discover penicillin, fly non-stop across the Atlantic and invent TV and frozen foods, but knowledge of the last frontier--the mind--remained as incomplete for generations as it was in the 19th Century.

In their ignorance about the brain's workings in the 1950s, neurosurgeons began severing the connectors between the two halves to treat epilepsy; they found it helped reduce the severity and frequency of seizures.

It wasn't until these split-brain patients, as they were called, began to exhibit bizarre abnormalities that scientists began examining the brain with renewed vigor.

A breakthrough came in 1962 when Dr. Roger Sperry began experiments with split-brain patients.

In a report to a scientific conference, he said: "Everything we have seen so far indicates that the surgery has left these people with two separate minds, that is, two separate spheres of consciousness. What is experienced in the right hemisphere seems to be entirely outside the realm of awareness of the left."

It was already known that the left hemisphere controls the physical operation of the right eye, hand and leg, and that the right hemisphere operates the left eye and limbs.

In one experiment, familiar objects like a comb were placed in one hand of the blindfolded split-brain patient. He had no trouble using the same hand to retrieve the comb from a collection of assorted objects by touch alone.

But when the other hand was asked to perform the same task, the subject resorted to pure guesswork.

When a split-brain subject was allowed to see the word "comb" in print with only his left eye--thus sending the data to the right side of the brain--he could demonstrate his understanding of the word by choosing a comb from a pile of objects.

But he couldn't speak the word; the data wasn't passing to the left brain, which creates verbal language, because of the severed connector.

Sperry discovered that in normal subjects, the *corpus callosum*, a thick nerve cable that connects the brain's halves, provides communication between the two sides. But in split-brain subjects, the hemispheres had become totally isolated from each other.

Last October, after nearly two decades of research, Dr. Sperry was awarded the Nobel Prize in medicine for his discoveries involving the specialization of the brain's hemispheres.

The split-brain patient is an extreme example of someone who uses only half the brain at a time to perform tasks.

In a normal brian, the halves are in constant communication through the "telegraph line" of the *corpus callosum*.

Most people use both halves for everyday tasks. But if a recognition task is very difficult, the side that feels most competent will take over. So what may have begun as a slight advantage for one hemisphere is magnified over time, as the other side increasingly stands back to let it handle a particular task.

Research appears to indicate that most of us use the left side of our brains more often than the right. Whichever hemisphere becomes dominant shapes our personality and the way we interpret the world around us.

Usually everything works out, with our brain switching from side to side thousands of times a day, so smoothly we aren't even aware of it.

When we pick up a textbook our left brain says to our right brain, "I'm much better at this sort of thing than you are. So you just relax and let me handle this." When we pick up a tennis racquet, our right brain says to our left, "You can't do a thing to win this match, so bug off."

This setting of specific functions into one hemisphere or the other is not completed until around age 10.

Every newborn brain has the ability to develop speech in either hemisphere, but the left brain has a slight inborn tendency to excel, so it wins control. As the years go by, the advantage increases; however, the specific function of speech is usually settled into one hemisphere or the other by age 5.

If the entire left half is removed before age 5, normal speech will develop in the right half. If the child's left brain is only damaged, it will continue to

control speech in a faulty way and prevent the right brain from developing speech.

If the left half is removed or damaged after speech is fully developed, there is no hope of anything but the crudest language.

In an adult, right-half removal leaves language intact but computer-like. The individual understands literal meanings, but symbolic references and nuances of tone are lost. Personality, insight and imagination also suffer.

When the entire left brain is removed, the patient loses the ability to talk, but still remains a thinking person.

Partial damage resulting from a stroke can cause similar but less severe damage to language and personality.

Girls mature more rapidly than boys. At birth, a girl is about four weeks ahead of a boy in general development. She talks, walks, reaches puberty and maximum growth two to three years ahead of a boy.

But a boy's slow maturity means there is more time for differentiation and organization of the brain before the connections between the sides become functional. Boys have better spatial scores on IQ tests; girls tend to have better verbal scores.

Once one side has achieved dominance in a particular area, encouraging the minor side to take charge can produce harmful side-effects such as stuttering and emotional problems which result from forcing naturally left-handed children to use their right hands.

Sometimes the absence of a pronounced preference leads to problems. Stuttering is seen more often in those with speech controlled by both hemispheres.

And dyslexia, a reading disability which affects up to 5 percent of boys but very few girls, seems to be found more often in those with equal spatial ability in both halves of their brains.

Dyslexics may be reading whole words as one would recognize a face. They are often late-maturing boys who stay with a holistic approach long after normal readers switch to a phonetic analysis (taking words apart by syllables).

If you're curious to learn which side of your brain you depend on most, there's a 40-question test on page 15 of today's magazine, designed by E. paul Torrance at the University of Georgia.

Though many Eastern cultures ar mystical, artistic, religious, and generally dominated by the right brain, Western society is now dominated by its left brains, with scientific and technological progress most respected and rewarded.

Inevitably, right-brain types are increasingly unhappy. In the past, they accepted lack of academic success as proof that they weren't as "smart."

With the possible exception of sports, fields in which right-brain people do best (such as art and music) have never been regarded as truly important in our society. Right-brain people have felt patronized and misunderstood. And now, with the support of some very left-brain data, they're growing indignant.

Spokespersons for the new pro-right brain movement generally bemoan society's neglect of the right brain's creative potential and offer suggestions to rectify the imbalance. They call for the liberation of the right brain. Some want a revolution in Western education with more emphasis on nonverbal skills.

A small but growing number of scientists, educators and artists see our culture's neglect of the right brain as a serious error–and they're finding an audience for their views.

Right-brain advocates in the Akron area seem to have a balanced view. They don't support a pampering of one hemisphere at the expense of the other, but a harmonious marriage of the two, which brain researchers call "integration." And in fact, integration is already present to some degree in most of us.

The charismatic leader of the informal local group is the Rev. Gabe Campbell, minister of the First Congregational Church at E. Market and Union Streets near downtown Akron.

Last year he earned his Ph.D. from New York University's school of education by doing research in the brain's hemispheric specialization as it relates to meditation.

While they don't hold meetings or declare themselves a group, others in the area share Campbell's interest and stay in contact with one another.

They include Tom Morin, a former head of the art department at the University of Akron and now a trustee of the Akron Art Museum; Michael Danoff, the museum's director; Dr. Henry Cone, a professor of education at AU; Dr. Tim Tyler, who is doing brain research at the Northeastern Ohio Universities College of Medicine at Rootstown, and Jacqueline Vernon, who teaches art education at AU for students who will be elementary school teachers.

Others are Dr. Gary Gappert, director of the Institute of Future Studies at AU, Dr. Beverly Dearth and Dr. Robert Lance, both psychologists in private practice, and Dr. Daniel Zelling, a physician and executive director of Ohio Institute of Medical Hypnosis.

In professional fields ranging from religion and art to medicine, education to psychology, they've been applying their new scientific knowledge of the brain toward a common goal: to make society aware that half of what's real has been unavailable to many people because it exists nonverbally, and isn't accessible to dominant, verbal left brains. They hope to help society overcome a lifetime habit of acknowledging only thoughts that can be expressed in words.

Campbell's goal, in counseling religious people, is to promote a more intuitive and less literal approach to the Bible and other religious writings.

Morin sees the recent breakthroughs as useful in helping art students "see" as an artist should see.

Dr. Dearth, in her private practice, has developed learning programs based on left brain/right brain differences which she uses on her young patients.

Dr. Zelling teaches seminars in hypnosis therapy to physicians, and believes hypnosis is as important as medication in treating some medical problems.

Mrs. Vernon works with Akron public school teachers to bring them more effective teaching techniques for reaching the right brains of their students.

The Rev. Campbell, who arrived in Akron from Stamford, Conn., two years ago to become pastor of the 149-year-old downtown church, got interested in brain research in 1962 when Sperry began *his* research. He became fascinated by the thought that left-brain domination had caused society to lose sight of the powerful emotional and visionary force of early religious experiences.

"Prayer should be listening, not telling," he says. "Too many modern religions define, categorize, and manipulate. They are credal and doctrinal. As Einstein proved, we aren't separated into energy and matter. We're entirely energy. And later research showed that it's possible to send and receive energy, and that energies communicate."

To a Congregationalist like Campbell–a believer in the Pilgrim heritage, which held that each person keeps his own conscience in the spiritual realm–the message was clear.

As he wrote in a philosophical journal: "Werner von Braun stated that Jesus was the finest quantum physicist the world had seen, but science was only now beginning to be able to comprehend what Jesus was talking about. Von Braun made the comment that 'the second coming is already here, but since it wasn't on a donkey you missed it.' Those who are looking with the logical hemisphere may be waiting for the donkey, while those who perceive with the right may be experiencing the new age."

Campbell's philosophy is peppered with reference to energy fields, holograms subatomic particles, and the Belgian physical chemist Ilya Prigogine, whose theory of Dissipative Structures won him the Nobel Prize for chemistry in 1977.

He uses these same terms to explain why he's unhappy with American schools; for though Campbell is concerned abut the emotional sterility of modern worship, he's equally concerned about the heavily left-brain approach to learning.

And local schools are interested in hearing what he has to say. Campbell estimates he's been invited to speak to 35 groups of teachers and administrators in the last two years.

At workshops, he has the participants pretending to be atomic elements, grabbing each other to form compounds. He attaches electrodes to their fingertips and shows them how a galvanic skin response meter can show emotional stress. He has them

blow up red and white beach balls, which they cheerfully bat back and forth.

(The ball-tossing is done under complicated rules that inevitably lead to people's making mistakes. That illustrates the attempt to mix a left-brain function–following verbal directions--with a right-brain activity–throwing and catching.)

While all that is going on, Campbell is delivering zingers:

"Our assembly-line schools are as badly broken down as the car industry."

"Slow maturers should be taught sculpture, typing, and sports until they're old enough to read at about age 8, 9, or 10."

"Ninety percent of juvenile delinquents are right-brain learners cut off by school systems."

"Our cerebrums become paralyzed by fear and anxiety and are unable to learn anything; 80 percent of time in school is spent in emotional survival, especially at recess and lunch."

"Every school is run by one little girl. When I visit a school, the first thing I ask the principal is, 'What little girl runs your school?' If he can't tell me, I'm not impressed."

Campbell helped found the nation's first totally "right brain" school in Stamford, Conn., where he was minister of the Congregational Church. Mead School opened with 83 students in 1970 and is still going strong.

Colleges and universities are beginning to produce specialists whose job is to inform elementary and secondary teachers about new methods for teaching students with a right brain learning style. Campbell predicts that by 1985, Ohio will require a right-brain learning specialist in every school.

At the worst, right-brain students have been maligned as not being as intelligent as their verbal and logical classmates who score better on the highly verbal IQ tests. At best, right-brainers are described as "creative" or "athletic" and are either forgiven for those traits or encouraged to develop them.

Mrs. Vernon, who teaches elementary school art education at Akron University, and Nancy Karabinus, instructor in the master's program for education of the gifted and talented at Cleveland State, spend a good deal of time conducting seminars and workshops for public school teachers on methods for reaching and "turning on" right-brain students.

Both women are doctoral candidates at Kent State, and both describe themselves as having right-brain learning styles.

Says Mrs. Vernon, "I was labeled a talker and troublemaker. Even at risk of punishment, I couldn't stop myself from touching and feeling what was on the teacher's desk. I was handicapped until I finally found art classes in college."

Mrs. Karabinus describes herself as a child who had to defend her unorthodoxy–putting purple shadows on a drawing of a yellow ski jacket because "that's what color they were." She says she felt "different" and had to struggle to master the learning techniques necessary to achieve her advanced degrees.

But now she says, "I have more respect for myself when I'm confronted by sequential thinkers, and that's where it helps. I now know where I'm coming from."

She prefers to describe people as falling generally into one of two types of learning styles, rather than as using one side of the brain more than the other.

"Field-dependent" children prefer to work in groups, like to dance, jabber, lean forward when talking to someone, and like people. "Field-dependent" children prefer to work alone, are less likely to share a conversation, and likely to be organized.

It's obvious which type of learner will be most likely to get in trouble in school.

Mrs. Karabinus feels there may be some legitimacy to the claim that schools are left-brain places. "They certainly don't provide many purely visual opportunities, chances to fantasize or to learn by doing," she says.

Perhaps schools teach the left brain best because teachers are overwhelmingly left-brain thinkers. In workshops conducted by Mrs. Vernon, about 75 percent of teachers taking E. Paul Torrance's learning styles test are found to be left-brain dominant.

Mrs. Karabinus is concerned about the ill effects of TV on creativity. Curiously, TV is not considered a good way to stimulate the right brain:

"TV limits imagery," she says. "Books increase the opportunity to create one's own imagery. I never enjoy a movie for which I've read the book first because the reality on the screen never seems to match my expectations."

What's the most important quality for an educator? "Flexibility," she says without hesitation. "There are many ways to know. We have to quit forcing children to fit a rigid system for learning and start adapting the classroom to suit the child."

Tom Morin, a 46-year-old sculptor and former Fulbright scholar who was head of Akron University's art department, says he's had no problems adjusting to life in a left-brain society, and has no ax to grind:

"I'm pretty integrated. I've had to develop the verbal and logical side of my brain in pursuit of my education and various jobs as administrator and speaker."

During a Christmas vacation, he decided it was time to make some changes in the way art was being taught in his department.

So with screwdriver in hand, he climbed a stepladder and disconnected all the bells in the hallway of the art department wing.

"I did leave one bell hooked up by the engineering college. I thought it would be too unfair to all those left brains to remove their crutch," he joked.

Because morin believes the right brain flourishes in a non-threatening environment, he told new crop of drawing students that they weren't going to receive grades or oral critiques of their work.

They were told not to sign any of their work. And Morin stopped strolling around the classroom to look over shoulders as his students drew. After three weeks they began to ask,"When are you going to grade these?" But he persevered for the first half of the semester.

The students began to experiment, to take risks. They became very articulate about their work. They began signing their work on the front–which Morin took as a sign of confidence in their ability as artists.

Another effort by Morin to infuse some right-brain activity into society is a drawing class he hopes to conduct this spring as a part of a teaching unit called "Human Values in Medicine" for students at the Rootstown medical school.

Morin, whose son is a pre-med student at Washington University in St. Louis, says: "We need a balance for our own sanity. My son took two courses in dance. It relaxes the left brain and it also teaches something to the right brain. A holistic education is critical."

Many of Morin's colleagues on other college art faculties have been favorably impressed by Betty Edwards, author of the best-selling book, *Drawing on the Right Side of the Brain*.

She presents a series of exercises for would-be artists, developed from her years as an art teacher. Ten years ago, she was baffled by the fact that so few students in art classes really learned to draw well by traditional methods.

She discovered that almost every student could learn to draw by copying a drawing upside down or by drawing negative shapes (the spaces between and around objects), instead of the objects themselves.

In those exercises, she concluded, students were forced to shift to a different way of processing visual information.

The left brain doesn't want too much visual input–just enough to recognize and categorize, which is a necessary defense in screening the overload of incoming data. But drawing requires that one look at every detail of the subject for a long time.

The left brain gets impatient and says, "It's a chair. I've got a ready-made symbol for it. Just put it on your paper."

Edward's exercise of drawing negative shapes is effective because it tricks the left brain, which isn't well-equipped to deal with abstract forms–it can't name them, recognize them or produce ready-made symbols for them. So it gives up and lets the right brain deal with them.

Drawing the negative shapes exactly as seen, as if they themselves had substance, automatically produces an accurate drawing of the "positive" shape it surrounds.

Edwards believes most people in the Western world never progress in art skills beyond the level they reach at age 9 or 10. Most adults draw like children, though they do nearly everything else like an adult.

Why? Edwards explains that by age 5 or 6, children using their left brains have developed a set of symbols to draw a landscape: green stripe on the bottom is the grass, blue stripe on the top is sky, mountains are drawn like upside-down ice cream cones.

Each symbol is, by trial and error, refined to a single version which is then endlessly repeated. With age, details are added in an attempt to recreate realism. By age 9 to 11, anything short of perfect realism is regarded as failure.

However, art teachers tend to dislike complex, detailed scenes, complaining of "tightness" and "lack of creativity." Often they resort to craft projects. So kids' drawing skills remain stalled at that level, and their self-criticism becomes permanent.

Edwards adds that drawing with the left hand if you're right-handed doesn't seem to help tap into the right brain, because you'll still have the same problems with seeing, with letting your system of symbols override your perceptions.

For the athlete, there are also dozens of practical suggestions for making full use of both sides of the brain. Many of them were first heard back in 1974, when tennis pro Timothy Gallwey wrote *The Inner Game of Tennis*, and later, *Inner Skiing*, which attempt to teach left-brain would-be athletes how to tune into their right brains when playing a sport.

How do you know if you're letting your left brain interfere in your athletic endeavors? You're the tennis player who carries on a conversation with yourself that sounds something like this: "No, you dummy! Bend your knees. Watch the ball. Oh, no! You're not following through."

If you see yourself in that description, you're the classic case of someone whose left brain doesn't trust his right brain to know how to play a sport.

Athletes say their peak performances never come when they're thinking about it. They come when they're immersed in a flow of action which requires all their energy. The hot steak often ends when they start thinking about it and trying to maintain it. Gallwey's technique avoids verbal descriptions of actual movements.

The Dallas Cowboys have been learning how to improve their game and heal their injuries while floating in a tank of water, watching lights and listening to music until they're in touch with their right brains.

Then they begin to mentally go through an event in a game: They picture themselves throwing the perfect pass, kicking a 60-yard field goal or healing an injury.

Iowa State, in its sixth year of using accelerated learning techniques, produced a Big Ten championship swim team last year.

As the theory has it, the body's physiology responds to the brain's visualization and learning takes place–but much more rapidly, because the brain can re-enact an event in a fraction of the time it actually takes to unfold.

Mrs. Vernon offers these practical suggestions for those who think they've come to "To make greater use of your right brain, read fiction and poetry rather than newspapers. Learn to meditate. Have yourself hypnotized. Try sketching or drawing, using Betty Edwards' techniques. Don't automatically disregard hunches or intuitive responses. Take up a sport.

"Take your wife out dancing. Unplug all clocks. Rather than teaching preschoolers the name for everything, provide other ways to learn, such as having the child touch or smell things. And since the smell and taste lobes are very near the *corpus callosum*, they provide one of the easiest ways to gain access to the right.

"To increase left-brain input, take a Dale Carnegie course in public speaking, read non-fiction, make lists and follow them, wear a wristwatch, take an adult education course or re-enroll in college, do crossword puzzles."

As a result of last year's activities at Akron University, which included a two-day workshop on hemisphericity last spring, President D. J. Guzzetta asked that a one-day conference be convened to discuss brain research and its implications for teaching.

One result of that conference was the presentation by Dr. Tim Tyler of a proposal for the creation of a center for applied neuroscience research and

study of recent brain research. An informal steering committee has been formed.

Although Morin has left Akron University to become chairman of the art department at Ohio State, he's still lobbying hopefully for a brain research program at AU.

"There's a great amount of interest and enthusiasm," he says. "A proposal has been presented for the creation of a center, and it'll be interesting to see what the university decides to do with that opportunity."

EXAMPLES OF LEFT/RIGHT BRAIN DOMINANCE CHARACTERISTICS

Ann Anzalone

- remembers names	- remembers faces
- likes directions to be spoken or written	- likes directions to be shown or demonstrated
- likes to keep feelings to self	- likes to share feelings
- prefers multiple choice tests	- prefers essay tests
- likes to do one thing at a time	- likes to do several things at once
- is planned and structured	- is fluid and spontaneous
- likes to use the correct tool for each job	- uses anything around to get the job done
- likes to be on time	- has own concept of time
- logically problem solves, asks many questions	- intuitively problem solves - the answer feels right
- is not a risk taker	- is a risk taker
- relies on language in thinking and remembering	- relies on images in thinking and remembering
- likes details, lists, and agendas	- dislikes details and agendas
- has long attention span, can concentrate for a long period of time	- has a short attention span, the mind wanders
- likes neatness and order, everything has its place	- is messy and disorganized with a high tolerance for clutter; uses a jam it, cram it approach to putting things away
- likes exact recipes	- likes to create own recipes
- likes exact formulas	- likes to create own way of doing things

LEFT, RIGHT, INTEGRATED BRAIN DOMINANCE CHARACTERISTICS

Left	Right	Integrated
• Intellectual	• Intuitive	Equally facile at both
• Remembers names	• Remembers faces	Equally facile at both
• Responds to verbal instructions and explanations	• Responds to demonstrated, illustrated or symbolic instructions	Equally facile at both
• Experiments systematically and with control	• Experiments randomly and with less restraint	Equally facile at both
• Prefers solving problems by breaking them down into parts, then approaching the problem sequentially, using logic	• Prefers solving problems by looking at the whole, the configurations, then approaching the problem through patterns, using hunches	Equally facile at both
• Makes objective judgments, extrinsic to person, looks at otherness	• Makes subjective judgment, intrinsic to person, looks at sameness	Equally facile at both
• Planned and structured	• Fluid and spontaneous	Equally facile at both
• Prefers established, certain information	• Prefers elusive, uncertain information	Equally facile at both
• Analytic reader	• Synthesizing reader	Equally facile at both
• Primary reliance on language in thinking and remembering	• Primary reliance on images in thinking and remembering	Equally facile at both
• Prefers talking and writing	• Prefers drawing and manipulating objects	Equally facile at both
• Prefers multiple choice tests	• Prefers open-ended questions	Equally facile at both
• Prefers work and/or studies carefully planned	• Prefers work and/or studies open-ended	Equally facile at both
• Prefers hierarchical (ranked) authority structures	• Prefers collegial (participative) authority structures	Equally facile at both
• Controls feelings	• More free with feelings	Equally facile at both
• Responds best to auditory, visual stimuli	• Responds best to kinetic stimuli (movement, action)	Equally facile at both
• Not facile in interpreting body language	• Good at interpreting body language	Equally facile at both
• Responsive to structure of environment	• Essentially self acting	Equally facile at both
• Rarely uses metaphors and analogies	• Frequently uses metaphors and analogies	Equally facile at both
• Favors logical problem solving	• Favors intuitive problem solving	Equally facile at both
• Prefers single variable research	• Prefers multi-variable research	Equally facile at both

Adapted from Your Style of Learning and Thinking, Forms B and C by E. Paul Torrence, University of Georgia, Athens, GA 30602

Name: _____

Date: _____

ARITHMETIC TIME TEST

Directions: Complete the problems as quickly as you can. In the following problems + means divide, x means subtract, ÷ means add, and - means multiply.

4 + 2 = _____
7 - 3 = _____
8 x 2 = _____
6 + 3 = _____
9 ÷ 3 = _____
8 ÷ 4 = _____
9 x 2 = _____
7 x 2 = _____
8 + 4 = _____
6 x 3 = _____
8 - 2 = _____
12 + 2 = _____
10 ÷ 2 = _____
5 x 3 = _____
4 + 2 = _____
3 x 2 = _____
7 - 2 = _____
7 + 1 = _____
4 x 3 = _____
10 - 5 = _____

2 ÷ 1 = _____
8 + 2 = _____
5 - 4 = _____
4 ÷ 2 = _____
6 - 3 = _____
9 + 3 = _____
6 ÷ 2 = _____
4 - 2 = _____
10 + 5 = _____
12 x 1 = _____
6 ÷ 3 = _____
12 x 2 = _____
3 - 2 = _____
6 + 3 = _____
4 x 2 = _____
8 ÷ 2 = _____
10 + 2 = _____
10 - 2 = _____
10 x 2 = _____
6 + 3 = _____

Case Study – Starting A New Creative Business

Jerzy and Maria Nowak just moved to the region. Jerzy has a job, but Maria has not been able to find employment. Jerzy has had 12 years experience in construction and Cathy has been a primary teacher for four years. The community they live in is mainly residential with limited industry. Most of the residents travel to a nearby industrial complex to work.

With one child, Jerzy and Maria have to share the time at home since there is no day care in the neighborhood. Maria really wants to work, but can't seem to find any work that allows flexibility in hours.

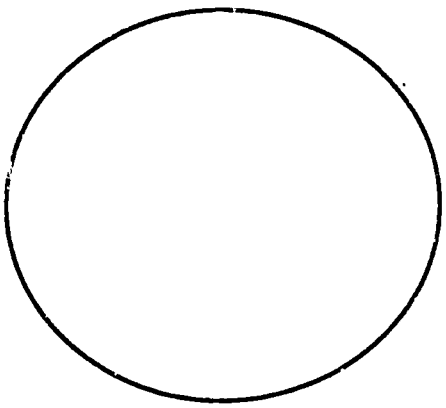
1. Can you think of ideas of businesses that Jerzy and Maria might start?

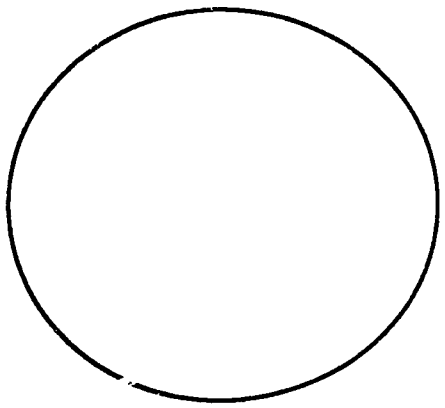
2. What limitations would they find as they start a business?

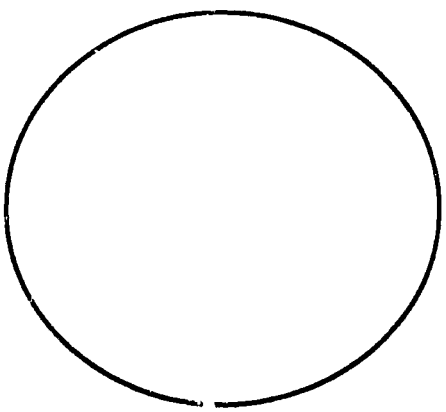
3. How should they develop their business?

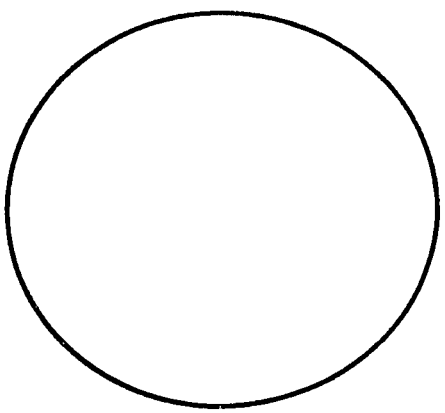
CREATIVE EXERCISES

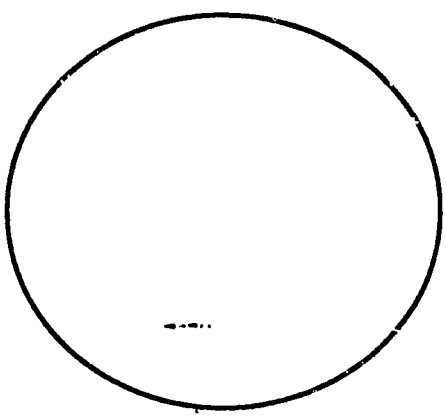
In ten minutes see how many objects you can make from the circles below. A circle should be the main part of whatever you make. Add lines to the circles to complete your picture. Your lines can be inside the circle, outside the circle or both inside and outside the circle. Try to think of things that no one else will think of. Make as many things as you can and put as many ideas as you can in each one. Add labels or titles, if the identity of theobject is not clear.

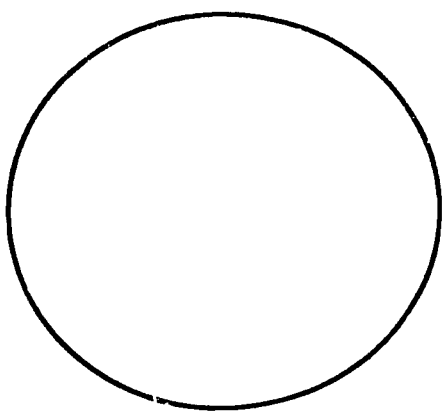




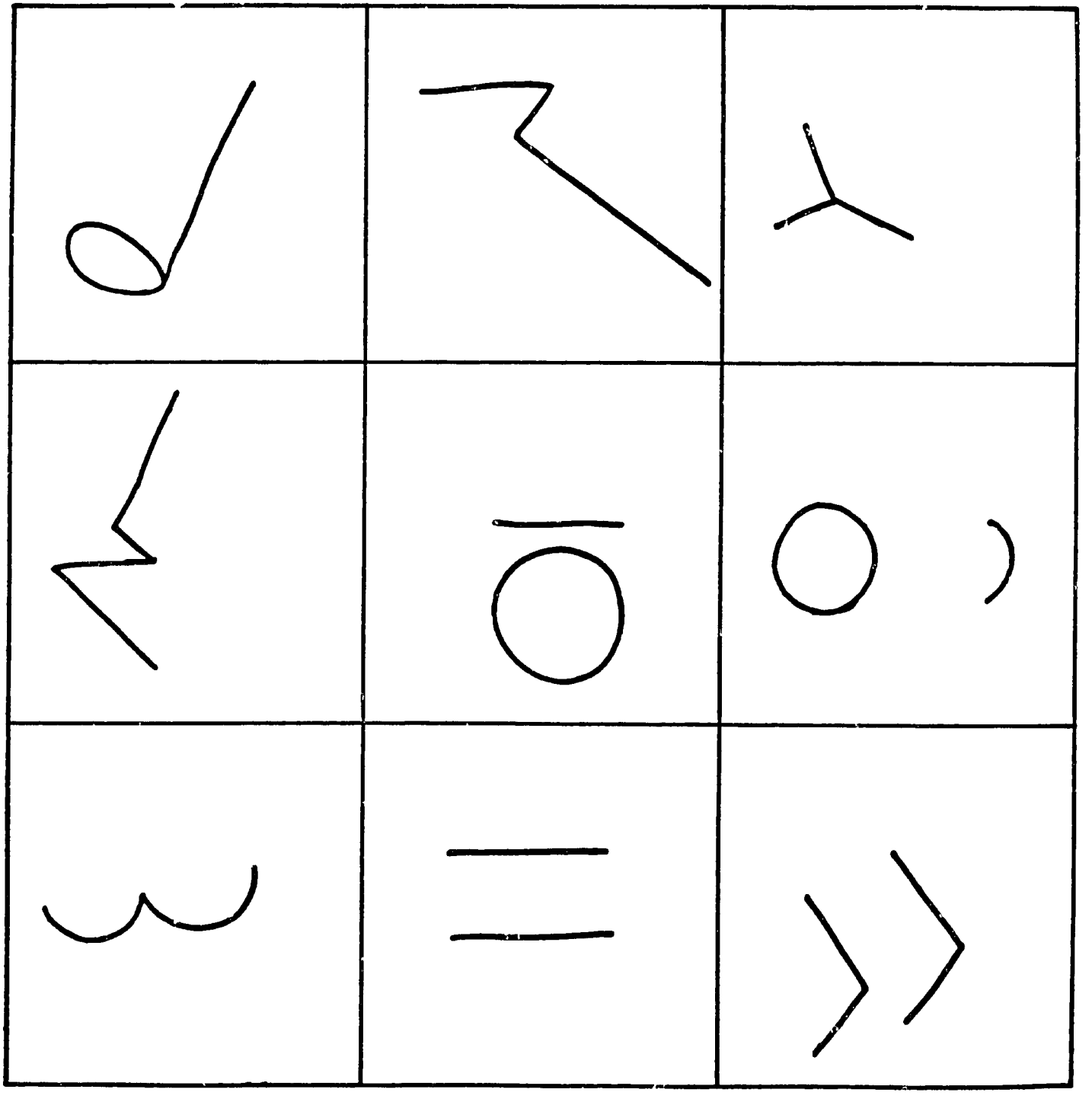




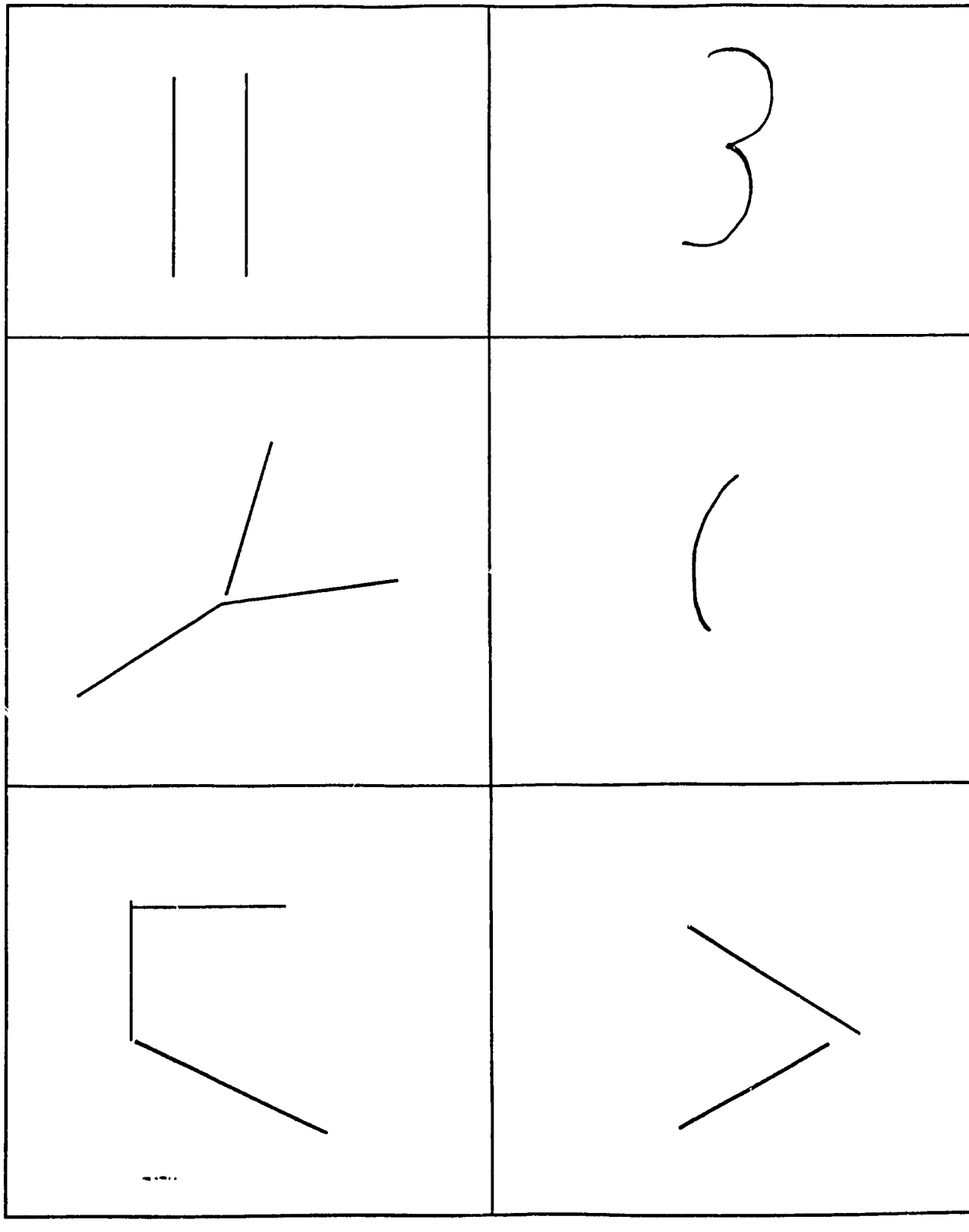




Your business/industry: _____



By adding lines to the six figures below, sketch some object or design that no one else will think of. Try to include as many different ideas as you can in your drawing. Don't stop with your first idea for completing your figure; keep building onto it. Make up titles for each of your pictures and write one at the bottom of each block next to the number of the figure.



"10 WAYS YOU CAN DEVELOP AN OPTIMIST'S EYE"

from Working Woman. (May 1988). p. 84.

"Success is 98 percent sweat and only 2 percent genius," says Howard Stevens, founder and chairman of the H. R. Chally Group, a top management-consulting firm. "And optimism is the fuel that makes you persevere."

But what if on an optimism scale of one to ten, you find yourself stuck somewhere between two and three or waffling between four and seven? Can you move closer to the optimistic end of the scale–and stay there? Absolutely. Here is Steven's ten-part program for redirecting your thinking toward the positive.

1. Consciously set goals, small ones you're 90 percent sure you'll succeed at, and work toward them. Five out of ten people avoid setting goals because they're afraid they'll feed bad if they don't reach them. As you reach your goals, set new ones. You'll find yourself striving to meet larger, more difficult challenges.

2. Acquire a sense of control by doing your homework. Be aware of all the outside forces that play into the goal you're trying to reach. Knowing who your competitors are, who's tackled a similar project before, how much the project will cost, which colleagues are likely to resist or support you, will make you feel more on top of the situation. Developing a well-thought-out plan will give you more confidence and enthusiasm about your goal or project.

3. Anticipate success. Fantasize about what winning will feel, taste and look like (do this several times daily, in the shower, on your way home from work, as you fall asleep). Imaging, or seeing yourself as succeeding, is a particularly powerful tool. Olympic athletes, especially slalom skiers and divers, use imaging techniques to psych themselves for a win. For instance, a skier fantasizes about winning in advance: She sees herself making a perfect run down the slope, superbly negotiating all the curves.

4. Create a psychological safety net–it's much easier to walk across a tightrope if you know there's a safety net underneath. Imagine the worst possible outcome that could occur, and have a solution or alternate plan ready. For example, if you're making a difficult presentation to your company's management group, fantasize about all the things that could go wrong and create solutions. Having solutions gives you a sense of control, and knowing you could survive the worse reinforces your self-confidence. This motivation technique is called "experiencing it through," and it's been found to be one of the most effective methods of redirecting your thinking.

5. Be good to yourself. Motivate yourself through a long and difficult project by dividing it into steps and rewarding yourself after each one. Increase the value of the reward when the going gets tough. You might start by giving yourself bath oil or the latest Dick Francis mystery, then a new suit–and when your motivation really sags or the task at hand is particularly arduous or unappealing, promise yourself a trip or a spa weekend as soon as you complete it.

6. Surround yourself with successful, positive people. Success and optimism are contagious. So are pessimism and failure. You're cutting your own throat if you constantly associate with people who are negative or have a "loser" attitude.

7. Don't fight negative thoughts. Accept them, then replace them by moving on to the next task. (Suppressing negative thoughts only makes them resurface.)

8. Keep your body tuned. A 30-minute aerobic workout five times a week–or even three times a week–is a good way to relieve stress and create a feeling of well-being. (Researchers now know that exercise causes the brain to release endorphins, natural opiates that promote this feeling.) A body in good working order also gives you stamina–you'll be able to put in longer hours and still have energy.

9. Look good to feel good. Being well dressed and well groomed (everything from a weekly manicure to the right makeup) helps boost your confidence–and the confidence of others in you.

10. Don't live at the office. A satisfying family/social life can sustain you through the stress of a tough week, and give you perspective. In addition, having important roles in your life outside work reduces the anxiety of having all your emotional eggs in one basket. Community or charity work also can make you feel powerful and worthwhile in ways totally separate from your corporate self.–P.S.

First appeared in WORKING WOMAN, May 1988.
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CREATIVE THINKING ACTIVITY

Paper Cup Exercise

1. Divide participants into groups of five to six per group.
2. Give each group a paper cup.
3. Have group brainstorm on the many uses of the cup.
4. Have one participant write down the many creative ideas.
5. Have group spokesperson tell the group about their ideas.
6. Identify the winning group with the most number of ideas.

IMPACT OF MACROECONOMIC SITUATION ON A SMALL BUSINESS

UNIT 4

Title: **IMPACT OF MACROECONOMIC SITUATION ON A SMALL BUSINESS**

Purpose: This unit is designed to help the participant to understand how economic changes affect development of a small business.

Objectives: Upon completion of this unit, the participant will understand how changes in monetary and tax policy affects development of a small business.

Materials:

Transparency 4-1	Changes in reserve requirements and a small business profit
Transparency 4-2	Changes in a discount rate and a small business profit
Transparency 4-3	Open market operations and a situation in a small business
Handout 4-1	The reserve requirements
Handout 4-2	Open market operations
Handout 4-3	Summary of monetary controls
Handout 4-4	Who pays the tax?
Handout 4-5	Types of inflation
Handout 4-6	Costs and benefits of inflation
Handout 4-7	The pros and cons of government action
Handout 4-8	The rush to "privatize"
Handout 4-9	The effects of trade restrictions such as tariffs and quotas

Source:

Kamerschen, D.R.; McKenzie, R.B.; Nardelli C. Economics. Copyright © for Polish translation Fundacja Gospodarcza NSZZ Solidarność, Gdańsk 1992, Poland

UNIT 4

Impact of Macroeconomic Situation on a Small Business

CONTENT	PROCESS
The Government regulates the supply of money through changing its policy in terms of the level of minimum reserve requirements, the value of rediscount rates and conductiong open market operations. Changes in the supply of money may affect the level of investment, the rate of employment, and demand which, in turn, decides about a small business turnover and profits.	
Reserve requirement is the amount of reserves, expressed as a percentage of deposits, held by depository institutions in the forms of cash holdings in their own vaults or on deposit at the bank that cannot be used to create money through loans.	If the reserve requirement is reduced, bank will be able to make more loans. Such a situation is presented in HO 4-1 and TP 4-1. Present TP 4-1 Changes in a rediscount rate are presented in TP 4-2.
The Treasury has the ability to sell government securities through its open market operations. *Open market operations* are the purchase and sale by the Treasury securities, which can be bills (91 days-1 year), notes (1-10 years)and bonds (10-40 years).	Distribute HO 4-2 When the Treasury buys government securities, it increases bank reserves and the money stock. When it sells government securities, bank reserves and the money stock decline.

CONTENT	PROCESS
	Present TP 4-3 Instructor gives the participants HO4-3 and summarize the ways of monetary controls.
Fiscal policy Fiscal policy affects small businesses - their turnovers and profits. The government's attempts to run budgetary deficit through increasing taxes may result in many farm bankruptcies	Most people are convinced that consumers bear the burden of excise (sale) taxes. In fact, excise taxes do hurt producers. Distribute and discuss HO 4-4.
Inflation The cost and benefits of inflation are shared by all members of the society.	Discuss types of inflation and provide the participants with HO 4-5. Distribute HO 4-6. Instructor may present other topic on the issues. Here are some recommended topics: - Pros and cons of government action - HO 4-7 - Privatization - HO 4-8 - The effects of trade restrictions such as tariffs and quotas - HO 4-9. It is recommended to provide the participants with HO 4-7, 8 and 9 for later reading.

CHANGES IN RESERVE REQUIREMENTS AND A SMALL BUSINESS PROFIT

DECREASE IN
THE RESERVE REQUIREMENT

INCREASE IN
HIGH-POWERED MONEY

DECREASE IN CREDITS' PRICE	INCREASE IN THE AMOUNT OF CREDITS
DECREASE IN COSTS	INCREASE IN INVESTMENT EMPLOYMNET AND DEMAND
INCREASE IN PROFIT	INCREASE IN OUTPUTS (SALES) AND PROFITS

Copvright Instytut Przedsiębiorczości Białystok-Poznań-Rzeszów, Poland

CHANGES IN A DISCOUNT RATE AND A SMALL BUSINESS PROFIT

DECREASE IN A DISCOUNT RATE

DECREASE IN A REDISCOUNT RATE

DECREASE IN CREDITS' PRICE

INCREASE IN THE NUMBER OF CREDITS

DECREASE IN COSTS
INCREASE IN PROFIT

INCREASE IN INVESTMENT
EMPLOYMENT, DEMAND

INCREASE IN OUTPUTS (SALES) AND PROFITS

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OPEN MARKET OPERATIONS AND THE SITUATION IN A SMALL BUSINESS

NEW GOVERNMNET SECURITIES	>	BUING BACK OLD GOVERN-MENT SECURITES
BUYING GOVERNMNET SECURITIES BY BANK		POSIBILIITIES OF DECREASE IN THE SUPPLY OF MONEY

DECREASE IN:

INVESTMENT
EMPLOYMENT
DEMAND

DECREASE IN:

OUTPUTS (SALE)
PROFITS

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The Reserve Requirement

The **reserve requirement** is the amount of reserves, expressed as a percentage of deposits, held by depository institutions in the form of cash holdings in their own vaults or on deposit at a Federal Reserve Bank (or at another depository institution for nonmember banks) that cannot be used by law to create money through loans. The bank's reserves, which include both its deposits at the Fed in its district and the currency in its vault, can drop no lower than the specific percentage of its demand deposits.

Actually, the reserve requirement is not a single figure, but a set of figures that apply to different types of accounts–i.e., transaction versus time–and to different levels of deposits or dates of maturity.

The general effect of a change in the reserve requirement is fairly simple. Suppose banks have loaned all the money they can, given the reserve requirement. If the requirement is reduced, they will be able to make more loans. As they do, the money stock will rise. The additional loans will end up as negotiable bank deposits or currency, which will supplement the existing money supply.

If the reserve equipment is increased, banks will have to increase their reserves. They will therefore make fewer loans. If banks cannot relend the money they gain when people repay their loans, the money stock must fall. Eventually the ratio of reserves to demand deposits will rise to the new required level.

Although we know that a decrease in the reserve requirement tends to increase the money stock, and vice versa, it is difficult to calculate when or how much the money stock will change. If the Fed lowers the reserve requirement, banks may not expand their loans immediately. Unfavorable business conditions may lead them to hold excess reserves. For instance, suppose banks expect interest rates to rise in the very near future. Instead of increasing their loans immediately, at relatively low interest rates, many banks may wait. Conversely, if the Fed increases the reserve requirement, some banks may not have to contract their loans immediately if they already have on hand all the reserves they need.

At different times, confronted with different market forces, the banking system will respond differently to a change in the reserve requirement. Sophisticated statistical procedures (called econometric model building) can increase the accuracy of the Fed's predictions. Even those methods are not always reliable, however. If a change in reserve requirements fails to produce the desired effect, the Fed may have to take corrective measures. Because a very small change in the reserve requirement can result in large changes in the money stock, and because banks have difficulty responding to changes in the reserve requirement, the Fed makes such changes infrequently–rarely more than once a year.

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Open Market Operations

By far the most important of the Fed's tools is its ability to sell government securities through its open market operations. **Open market operations** are the purchase and sale by the Federal Reserve of U.S. government securities, which can be bills (91 days–1 year), notes (1–10 years), or bonds (10–40 years). When the Fed buys government securities, it increases bank reserves and the money stock. When it sells government securities, bank reserves and the money stock decline.

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Summary of Monetary Controls

The members of the Open Market Committee of the Fed have several ways of exerting control over the money stock. If they want to increase the money stock, they may:

1. Reduce the reserve requirement.
2. Increase the loans made to depository institutions.
3. Buy government securities on the open market.

If they want to decrease the money stock, they may:

4. Increase the reserve requirement.
5. Reduce the loans made to depository institutions.
6. Sell government securities held by the Fed.

If the committee takes any of the first three actions and the growth of the money stock accelerates, the Fed is said to be following an expansionary or loose monetary policy. If it takes any of the last three actions and the money stock decreases or slows its rate of growth, the Fed is said to be following a contractionary or tight monetary policy.

The Fed's controls over the money stock are powerful, but it is difficult to apply them precisely within narrow limits. Various forces may work against–or in concert with–monetary controls. For instance, banks may choose not to lend against all their excess reserves. Even if they do, the money expansion process takes time to work through the banking system. In addition, changes in the demand for money may offset changes in the supply of money, thereby frustrating monetary policy. For instance, a stimulative expansion of the money stock may not expand GNP if money demand drops significantly. Furthermore, while the Fed is trying to increase reserves, the public may be increasing its currency holdings and reducing its demand deposits, in turn reducing reserves and the potential to create money. Moreover, the U.S. Treasury has demand deposits both at the Fed and in depository institutions around the nation. If the Treasury decides to move some of its deposits from depository institutions to the Federal Reserve, it will reduce reserves. Also, if the interest rate does not change much as the supply of money is changed, or if investment is insensitive to shifts in the interest rate, then monetary policy can be frustrated. Finally, monetary policy and fiscal policy are more effective against demand-pull inflation than against cost-push inflation.

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In short, the Fed's attempts to increase the money stock may simply offset opposing forces that tend to reduce the money stock. Indeed, the Fed often buys government securities (or reduces the reserve requirement, or increases loans to depository institutions) simply to keep the money stock from falling, rather than to increase it. Similar difficulties may frustrate attempts to contract the money stock.

Monetary policy is thought by some to be superior to fiscal policy–i.e., government altering its spending and taxes to control the economy–as it applies quickly with few lags. For instance, the Federal Open Market Committee is much more flexible than a congressional committee. Monetary policy is also more impersonal, subtle, and therefore somewhat more politically acceptable, applying to almost everyone instead of a select few.

Who Pays the Tax?

Most people are convinced that consumers bear the burden of excise (or sales) taxes. They believe producers simply pass the tax on to consumers as higher prices. Yet every time a new (or increased) excise tax is proposed, producers lobby against it. If excise taxes could be passed on to consumers, firms would have little reason to spend hundreds of thousands of dollars opposing them. In fact, excise taxes do hurt producers.

Figure 31.1 shows the margarine industry's supply and demand curves, S_1, and D. In a competitive market, the price will tend toward P_2, and the quantity sold toward Q_3. If the state imposes a 250 zlotys tax on each pound of margarine sold and collects the tax from producers, it effectively raises the cost of production. The producer must now pay a price not just for the right to use resources, such as equipment and raw materials, but for the right to continue production legally. The supply curve, reflecting this cost increase, shifts to S_2. The vertical difference between the two curves, $P_3 - P_1$, represents the extra 250 zlotys cost added by the tax.

Given the shift in supply, the quantity of margarine produced falls to Q_2, and the price rises to P_3. Note, however, that the price increase $(P_3 - P_2)$ is less than the vertical distance between the two supply curves $(P_3 - P_1)$. That is, the price increases by less than the amount of the tax that caused the shift in supply. Clearly, the producer's net price has fallen. If the tax is 250 zlotys, but the price paid by consumers rises only 200 zlotys (1200 zlotys – 1000), the producers loses 50 zlotys. It now nets only 950 zlotys on a product that used to bring 1000 zlotys. In other words, the tax not only reduces the quantity of margarine producers can sell, but makes each sale less profitable.

Incidentally, butter producers have a clear incentive to support a tax on margarine. When the price of margarine increases, consumers will seek substitutes. The demand for butter will rise, and producers will be able to sell more butter and charge more for each pound.

The 250 zlotys tax in our example is divided between consumers and producers, although most of it (200 zlotys) is paid by consumers. Why do consumers pay most of the tax? Consumers bear most of the tax burden because demand is less elastic than supply at the point of equilibrium. The price elasticity of supply is analogous to the price elasticity of demand and is the basic measure of the responsiveness of quantity supplied to changes in price. The price elasticity of supply is defined as

$$E_s = \frac{\text{percentage change in quantity supplied}}{\text{percentage change in price}} = \frac{\%\Delta Q}{\%\Delta P}$$

where Q is quantity supplied and P is price.

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Now, if demand is less elastic than supply ($E_d < E_s$), then consumers find it relatively difficult to make substitutions so as to avoid the excise tax. The result, as depicted in Figure 31.1, is that consumers bear most of the tax burden while producers pay only a small part (20 percent) of the tax. Suppose, however, that supply is less elastic than demand ($E_d > E_s$), as in Figure 31.2. The 250 zlotys tax raises the price paid by consumers by only 50 zlotys while the price–net of tax–that producers receive falls by 200 zlotys. Although the supply curve shifts up by the same vertical distance (250 zlotys) as in the previous figure, the burden is different because of different elasticities.

The general rule governing who pays the tax, then, is that the larger burden of tax will fall on the side of the market with the lower elasticity. If demand is less elastic than supply (as in Figure 31.1), consumers pay most of the tax. If supply is less elastic than demand (as in Figure 31.2), producers pay most of the tax. If supply and demand elasticities are approximately the same in absolute value, producers and consumers will share the tax burden that falls on the consumer is equal to $E_s/(E_s + /E_d)$ x 100. If demand is perfectly inelastic ($E_d = 0$) or supply is perfectly elastic (Ex $=\infty$), the entire burden (100 percent) of the tax falls on the consumer.

Types of Inflation

There are three types of inflation: demand-pull, cost-push, and structural. Each has a different cause. **Demand-pull or buyers' inflation** occurs when total planned expenditures increase faster than total production. That is, people want to buy more than the economy is producing, usually at full employment or full capacity. In bidding for the limited number of goods and services available, they pull prices up. Demand-pull inflation may be stimulated by increases in the supply of money or in government expenditures–a subject to which we will return in later chapters.

Cost-push or sellers' or suppliers' inflation occurs when restrictions are placed on the supply of one or more resources or when the price of one or more resources is increased. The linchpin of this inflation is on the supply side of the market. For example, cost-push inflation may result from a cutoff in oil imports because of war or political disturbances. Competition for the restricted supply pushes oil prices up. It may arise from a curtailment of food supplies, like wheat or soy beans, because of poor weather. Cost-push inflation may also stem from wage increases that are not matched by productivity increases or from price fixing on the part of monopolies and oligopolies. In all these instances, output is restricted–either physically or, as in the last two cases, because a higher price reduces the demand for a resource. Competition among consumers for the limited output then forces the general price level up.

Structural inflation occurs when producers cannot readily shift production in response to changes in the structure of the economy. Changes in the demand for a product, in the technology of its production, and in the competition producers face can all cause structural inflation. Structural inflation may result when the overall composition of what consumers, businesses, and governments want to buy changes and producers cannot readily alter their employment of resources and their product mix. It may also be caused by the introduction of a major production innovation–for example, the advent of trains or the development of assembly-line robots. Changes in the structure of the economy create strategic shortages, or bottlenecks, in production supply lines. If a good like steel is caught in such a bottleneck, its price will rise, and that increase will then be transmitted to the prices of many other goods that use steel.

Reducing Inflation

There are two major problems in dealing with inflation. The first is identifying which type of inflation is at work because each type requires a different response. Demand-pull inflation may be tackled by reducing total spending–for example, by cutting government expenditures or increasing income taxes (since higher taxes will reduce consumer spending).

Programs to increase the supply of certain key products, such as oil, may relieve cost-push inflation. Structural inflation may be attacked by eliminating the problems workers encounter when moving among different industries.

The second problem is overcoming political objections to implementing the appropriate policies. If inflation is caused by increases in the amount of money in circulation or by excessive government spending, then the obvious solution is to control the money supply and the government's tendency to overspend. Such steps may be politically unpopular, however. As long as citizens believe in the existence of the free lunch, governmental belt tightening–especially when it hits one's favorite government program–is bound to be controversial.

Costs and Benefits of Inflation

The Costs of Inflation

There are two effects of inflation. One effect results from the redistribution of income from losers to gainers, with potentially no overall harm to the macroeconomy. The second and more serious effect is the misallocation of resources that diminishes productivity and economic growth by distorting the aggregate demand and aggregate supply for the economy as a whole. The damage done by inflation depends primarily on two factors: (1) whether it is anticipated or unanticipated and (2) what the rate of inflation is. We will begin by considering the effects of unanticipated inflation, a condition experienced in the United States in the mid-1960s and mid-1970s.

As noted in Chapter 8, inflation ran between 1 and 4 percent per year in the United States throughout the 1950s and early 1960s. Americans became accustomed to only moderate price increases. When prices started to rise at rates of 4 to 6 percent during the late 1960s, most people were caught off guard. Disgruntled grocery shoppers demonstrated against escalating prices. Richard Nixon railed against the "exorbitant" 5 percent rate of inflation in his campaign for the presidency in 1968. In August 1971, as public concern about inflation mounted, President Nixon froze wages and the prices of practically all goods and services.

At the time of the wage-price freeze the rate of inflation was 3.5 percent–relatively modest compared with the double-digit rates of 1974 and 1979 to 1980. The unanticipated inflation of the late 1960s imposed costs that people were not prepared for, however. For that reason its consequences were perhaps more serious than the results of the later round of price increases. One of the most noticeable consequences, from the average citizen's point of view, was the decline in the relative value of cash savings.

Losses to Cash Holders

Unanticipated inflation hurts people with dollars in their pockets or in demand and savings accounts. The value of the dollars they are holding goes down, for the dollar buys less at today's prices than it did yesterday. The losses to cash holders are so clear that if people anticipate a high rate of inflation, they will convert their dollars into goods and services at present prices, before their purchasing power goes down. One might argue, then, that people who hold on to their dollars are wagering that the benefits of holding money will exceed the costs. Whether they should be expected to make such bets is an emotional issue. From an economic perspective, the movement of financial resources into goods and services as a result of anticipated inflation reduces investment and ultimately lowers national production.

Losses to Institutional Creditors

Institutional creditors, like banks and insurance companies, also lose from unanticipated inflation. Assume that during noninflationary times a bank lends $30,000 to someone who agrees to repay the principal at the end of the year, with 6 percent interest. The bank expects $31,800 [$30,000 + (0.06 x $30,000)] on the termination date. If prices rise unexpectedly by 10 percent, however, the *real* value of the dollars the bank receives (that is, what they will buy) will be less than the original value of the loan: $28,620 rather than $30,000. The creditor would have done better to invest the $30,000 in land or some other real good, whose price would have risen along with the prices of other goods and services. In that case, the asset purchased for $30,000 would now be worth $33,000 [$30,000 x (0.10 x $30,000)]. The *real* value, or purchasing power, of the $33,000 piece of property would be no greater than the original purchasing power of the $30,000. The bank would not have gained anything, but it would not have lost anything either.

If inflation is anticipated, banks and other creditors can demand–and borrowers will be willing to pay–a higher rate of interest on the money they lend, to compensate for the expected lost purchasing power of the dollars they receive in payment. That is why interest rates tend to rise with the inflation rate. High interest rates are generally a consequence rather than a cause of inflation.

Losses to Bond Buyers

Like banks that make loans, people who buy government and corporate bonds are creditors. When they buy bonds, they lend money to the bond issuer. In return they expect to be paid interest at regular intervals. They also expect to receive the principal (that is, the face value of the bond) on the date of maturity. Because both the interest payments and the principal are normally stated in terms of dollars, an unanticipated increase in the inflation rate can mean an unexpected drop in the purchasing power of the interest and principal. If the inflation is anticipated, bond buyers' demand recompenses for it. In fact, if lenders and borrowers expect identical rates of inflation, they should take into account the **Fisher effect,** which states that the nominal (market) rate of interest is equal to the real rate of interest (based on the real productivity of capital) plus the rate of anticipated inflation. If the real interest rate is 3 percent and the anticipated inflation rate is 6 percent, the nominal interest rate must be 9 percent. Thus, nominal interest rates include an inflation premium (in our example, 6 percent) to compensate for any erosion of purchasing power.

Like banks, individuals can protect themselves against anticipated inflation by seeking a premium in the interest rate that compensates them for the expected loss of purchasing power. Unless they receive such a premium, they will tend to withhold their funds from the bond market, pushing interest up.

Losses to Businesses and Workers

Inflation means that quality-adjusted prices in general are on the rise, not necessarily that all prices rise by the same amount. Some prices may not rise at all, and some may even fall.

Some prices tend to change rather rapidly and smoothly, reflecting changes in market forces, like the quantity and velocity of money. The prices of agricultural commodities such as wheat and beef tend to mirror changes in their auction markets with reasonable rapidity, but the prices of many other goods take time to adjust upward. Price increases may be delayed when there are long time lags between the placement of an order an the delivery of the product, or when contracts specify the price at the time of delivery. Commercial airplanes, heavy electrical equipment, and many buildings are constructed and sold under these conditions. For the producers of these products, unanticipated inflation can mean cost increases and narrower-than-expected profit margins, or even losses, as well as payment in devalued dollars.

If the prices of products rise at different rates, then wages are likely to follow at different rates, for workers' wages depend in part on the prices charged for their products. In addition, some workers' wages are restrained by contracts that extend over a period of one or more years. In short, some workers' pay may keep pace with inflation; other workers' wages may lag behind price increases. The latter group will suffer a loss.

Not all reductions in the purchasing power of wages can be attributed to inflation, however. In any dynamic economy, there will always be groups of workers whose real wages decline because of the market forces affecting their industries. A decrease in the demand for a particular good, or an increase in the supply of workers in a particular industry, can cause such a decline in wages. Because more people are seeking college teaching positions, for instance, the real salaries of many college professors have declined in recent years. The fairly high rate of inflation in the past decade only quickened the downward adjustment. In short, inflation can mean temporary losses in purchasing power for some groups, but not all.

Losses to Taxpayers

Because of the way income tax systems are structured, almost every income earner is hurt by inflation as their normal (but not necessarily real) income rises. Most tax systems are arranged so that they take a higher percentage of a person's money income as it rises. Thus if Ms. Sue Jones's money income rises with inflation, the government will take a greater percentage of it in taxes–even if its real purchasing power merely remains constant. The purchasing power of Ms. Jones's after-tax income declines with inflation.

Losses to Pensioners

Retired people who depend on fixed periodic payments from their company pension plans are hurt by rising prices. Congress addressed the problem by providing for cost-of-living adjustments in Social Security checks.

General Losses from Inflation

During inflationary times, losses in the purchasing power of the dollar can encourage people to hold less money and more real assets, such as land, houses, gold, and collectibles (such as jewelry, artwork, and stamps). Scarce managerial talent is detoured *from* managing production, seeking efficiency and economy, and innovating, *to* maneuvering, speculating, and searching for protection against or benefit from inflation.

Anticipated inflation can also lead to an overheating of the economy, or unrealistically high production levels. By encouraging purchasing now instead of later, inflation moves consumption and investment forward in time. If business people expect higher rates of inflation in the future, this increases expected future prices of output relative to the current costs of capital goods and encourages investment. Businesses will also build up their inventories now, to avoid paying higher prices later. At some point, having accumulated more inventory than necessary, business will cut back on orders for goods. Then production will fall, leading to unemployment and lost income for workers.

In periods of anticipated modest inflation, creditors can adjust their interest rates to compensate for the expected decrease in the value of the dollar. Similarly, workers can increase their wage demands. During periods of **hyperinflation,** when there is an abrupt and substantial rise in prices (e.g., 50 percent or more per month), the value of currency deteriorates so quickly that people become reluctant to accept and hold money. To avoid significant economic losses, they tend to spend the dollars they receive as fast as they can. Although hyperinflation perhaps can lead to a moneyless economy–a return to the barter system in which resources are devoted as much to searching out mutually beneficial trades as to production–it never has. In such circumstances production levels can fall significantly, as they did in Germany after the First World War. Even in the last stages of the German hyperinflation, however, people continued to use money. Even though money was plummeting in value, it was still much more efficient than bartering.

The Benefits of Inflation

When one person loses from an unanticipated increase in prices, someone else usually gains. (The obvious exception is when inflation contributes to a downturn rather than a redistribution in total production, in which case almost everyone can lose.) Like the costs of inflation, benefits emerge largely because some people do not anticipate the rise

in prices or cannot adjust readily to it. In such situations, people who do foresee rising prices and move to counteract them will gain at the expense of others. They can buy early, at relatively low prices, and sell later at much higher prices. The possibility of reaping such gains is one factor that tends to draw resources away from production in inflationary times. People use their resources for speculation in the hope that they may be among the gainers from inflation.

Gains to Debtors

Probably the largest single group of people who gain from unanticipated inflation are debtors who owe money at the time inflation begins. The largest subgroup (not including the government) in this category is homeowners who are paying mortgages with fixed interest charges. They are a significant part of the population, since historically most single-family dwellings have been financed this way. Homeowners benefit because the real value of their debts shrinks. Thus the person with a mortgage during an inflationary period is paying off the loan in dollars that are worth less than the dollars that were borrowed.

Gains to Businesses and Workers

Not all prices adjust upward in times of inflation. Because of institutional barriers to the adjustment of wages and prices, such as lengthy production procedures and long-term labor contracts, some wages and prices rise less rapidly than others. Just as the people whose wages and prices adjust sluggishly are hurt by inflation, those whose wages and prices adjust quickly receive temporary benefits from unanticipated inflation. In particular, statistics show that business profits tend to rise in the early phases of a new and higher inflationary cycle because product prices tend to rise faster than wages. In such a situation, business owners gain at the expense of workers, who may not anticipate the increase in prices soon enough to incorporate it into their wage demands. In a minority of cases, workers are protected by special clauses in their contracts, called **COLAs** (cost-of-living adjustment clauses). COLAs compensate workers in part or in full for erosion of their real purchasing power by inflation (as measured by the CPI).

Gains to Politicians and Government Employees

Not surprisingly, those who are responsible for increasing the money stock and contributing to inflation tend to benefit from it. This observation holds true whether money is made of gold or paper, although the benefits tend to be smaller with metal-based currencies. The discovery of gold in California in the nineteenth century benefitted the gold miners who produced and sold it. The miners' benefits were limited to the difference between the cost of mining the gold and the price it commanded when sold, however. To the extent that mining increased the demand for equipment like shovels and pans, some

product suppliers also benefitted from the increase of the gold supply. The cost of the inflation was shared among everyone who was holding gold at the time because the new discovery reduced the value of existing gold.

Because paper money is much less difficult and expensive to produce than metal-based currencies, the profits to the producers can be much greater. Modern governments often take advantage of inflation, particularly in wartime. Government can produce paper money in two ways. First, it can increase the money stock directly, either by printing new currency or by raising its bank balance at the central bank. The government then uses this newly created money to buy new roads or military bases. As long as people are willing to accept new currency or checks drawn on the Federal Reserve account, the money stock will increase, and government will benefit from the increase. Politicians who promote government programs, workers who staff them, and people who benefit directly from them will all gain from inflation. The losers will be those who hold dollar assets and those who must pay higher prices for goods and services because fewer resources are available for nongovernment uses.

Thus, by creating money, the government can redistribute resources from private to public use. Directly or indirectly, inflating the dollar increases the government's purchasing power. Because taxes also redistribute purchasing power from the public to the government, inflation can be considered taxation in disguise. Tax collected in this way is obscured by the complex mechanisms of money creation. However, inflation distributes the cost of government programs more haphazardly than normal taxation, and inflation is a kind of taxation without representation because it is never officially approved by Congress. For politicians who want to vote for public programs but not the taxes to pay for them, inflation may be the ideal tax system.

The Pros and Cons of Government Action

More often than not, exchanges between buyers and sellers affect others. People buy clothes partly to keep warm in the winter and dry in the rain, but most people value the appearance of clothing at least as much as its comfort. We choose clothing because we want others to be pleased or impressed (or perhaps irritated). The same can be said about the cars we purchase, the places we go to eat, the records we buy, even the colleges we attend. We impose the external effects of our actions deliberately as well as accidentally.

The presence of externalities in economic transactions does not necessarily mean that government should intervene. First, the economic distortions created by externalities are often quite small, if not inconsequential. So far our examples of external costs and benefits involved possibly significant distortions of market forces. In Figure 30.4, however, the supply curve S_2, which incorporates both private and external costs, lies only slightly to the left of the market supply curve, S_1. The difference between the market output level, Q_2, and the optimum output level, Q_1, is small, as is the market inefficiency, shown by the shaded triangular area. Therefore little can be gained by government intervention.

This limited benefit must be weighed against the cost of government action. Whenever government intervenes in any situation, agencies are set up, employees are hired, papers are shuffled, and reports are filed. Almost invariably, suits are brought against firms and individuals who have violated government rules. In short, significant costs can be incurred in redressing small market inefficiencies. If the cost of government intervention exceeds the cost of the market's inefficiencies, government action will actually increase inefficiency.

A second reason for limiting government action is that it generates external costs of its own. If government dictates the construction methods to be used in building homes, the way mothers deliver their babies, or the hair lengths of government workers, the people who set the standards impost a cost–which may be external to them–on those who do not share their standards. We may agree with some government rules, but strenuously object to others. On balance, such government intervention is as likely to hurt us as help us.

Government dictates in educational institutions have sometimes imposed onerous costs on students. For instance, until the late 1960s, the University of Virginia had a dress code that required male students to wear coats and ties. Colleges routinely set the hours by which students should return to their dormitories and expelled those who rebelled. At the University of California, students were once forbidden to engage in on-campus political activity. Costs are imposed on those who must obey such rules. The more centralized the government that is setting the standards, the less opportunity people will have to escape the rules by moving elsewhere.

In certain markets, government action may not be necessary. Over the long run, some of the external costs and benefits that cause market distortions may be internalized. This is, they may become private costs and benefits. Suppose the development of a park would generate external benefits for all the businesses in a shopping district. More customers would be attracted to the district, and more sales would be made. An alert entrepreneur could internalize those benefits by building a shopping mall with a park in the middle.

The Rush to "Privatize"

New York Times Editors

"Privatization" means the opposite of "nationalization," but until just a few years ago, the tendency was all one way. Selling or giving away public property was just a gleam in the eye of a few free-market zealots. Nowadays, the idea of privatization is generating enthusiasm from the Potomac to the Ganges.

The British Government has sold off aerospace, communications, oil, hotel and trucking companies and plans to sell British Airways, Rolls-Royce and the London Water Authority. Japan's Government is auctioning off telephone, airline, rail and tobacco companies. Turkey's has sold the bridge across the Bosporus.

In America, coalitions of environmentalists, budget cutters and free-marketeers are pressing for the sale of Federal grazing and timberlands, hydropower and irrigation water. President Reagan urges the sale of Conrail. Budget Director James Miller reportedly favors privatizing Government functions like home mortgage insurance, small-airport traffic control and postal service.

The global trend owes much to the failure of socialism or traditional statism to raise living standards or redress economic injustices. But the wisdom of trying to stimulate growth by converting public ownership to private should be measured case by case. If privatization is not to become a discredited fad, there needs to be an analytic framework for picking potential winners.

Consider what privatization might, and might not, do:

It cannot ease the credit crunch caused by budget deficits. Selling public property for cash does indeed reduce a government's measured deficit. That seems to be why White House budget cutters are tempted to sell off the Federal Housing Administration. but unlike a tax increase or spending reduction, that would not reduce private wealth or income. So it cannot cut consumption and thus would not reduce interest rates or liberate capital for more productive uses.

It can't relieve a government of its social responsibilities. Private enterprise may be able to deliver essential public services like mass transit, sanitation, education or parks, with less waste. Scottsdale, Ariz., for example, saves $2 million a year by hiring a private firefighting contractor. But the reluctance of people to pay for services they once got "free" should not be confused with an increase in efficiency. For example, the inability of poor people to afford private college tuitions does not mean delivering the service at public expense is not worth the cost. Nor does it justify the recent decision of firefighters in Salem, Ark., to let a house burn because the owner had failed to pay his fire protections dues.

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It isn't likely to make monopolies more efficient. State-owned airlines, like British Airways, are typically less well managed and employ labor less productively than private lines. But that is usually due to the lack of competition, not public ownership. Regulated monopolies, public or private, that can easily pass on costs to consumes have little reason to economize.

But privatization may reduce incentives for waste. Government agencies that sell scarce resources, like irrigation water or hydropower, often find it politically impossible to charge private customers for their real value. The result, in cases like the Westlands Water District in central California, is profligate use, even as Los Angeles spends hundreds of millions to develop new sources of water. Letting the Westlands farmers resell the water at market rates would eliminate their incentive to squander the resource.

And privatization may temper political demands for inefficient operations. State-run businesses that depend on government subsidies, like Amtrak, are rarely able to cancel uneconomical services or to dismiss employees. Privatizing such companies doesn't eliminate the public pressure. But in America, where subsidizing money-losing private companies is not traditional, it may shift the burden to those who want to maintain the services.

Privatization is not a cure for every economic ailment. But the spreading skepticism about public enterprises offers opportunities to re-examine them with an eye to raising productivity and paring unjustifiable government subsidies. The tough job ahead is to mold that trendy skepticism into enduring economic improvements.

Why Privatize?

Stuart M. Butler, Heritage Foundation

A remarkable trend in recent years has been the enthusiastic embrace by many countries of the policy of "privatization"; that is, the transfer of government functions in whole or in part to the private sector. In places as different as Japan and Jamaica, Britain and the People's Republic of China, governments are reversing the once-common policy of "nationalization," the direct government control of ownership of economic activity.

This privatization trend takes three main forms. The most widespread outside the United States is the *sale of government assets.* Britain, for instance, has sold several nationalized companies to the general public, ranging from the entire telephone system to the Jaguar sports car company. It has also sold more than 1 million public housing units to their existing tenants. The second form, common in the United States, is *contracting* with private companies or organizations to deliver government services, such as garbage pickup or bus services. The third is the use of *vouchers,* where the government provides financial assistance to individuals that is restricted to the purchase of specified goods and services, and then the recipient spends those vouchers in the private sector. In the United States, such vouchers are provided to the poor to help them rent decent housing (the Reagan administration's housing voucher program) and to obtain food (the Food Stamp program, started during the Johnson administration).

Why are so many governments adopting such privatization policies? There are several reasons, but two rank as the most important:

Increasing economic efficiency: Privatization is part of the general worldwide movement away from central planning and public ownership. Government control of key parts of the economy was meant to bring efficiency and democratic control but resulted instead in spiraling subsidies and inefficient bureaucratization. Selling nationalized firms to private investors–or public housing units to tenants–introduces incentives that lead to better economic uses of the assets. Contracting and the use of vouchers allow the government or a subsidized individual to purchase services from private firms on the basis of the best value for money.

The key to improved efficiency, of course, is competition, so needless to say, the benefits of privatization are reduced if only one contractor is available or if a public monopoly is merely turned into a private monopoly (although there *are* still gains in this case since the cost of political interference is removed). For this reason, Britain, which chose in the early 1980s to sell nationwide utilities as regulated monopolies, is now restructuring utilities prior to sale, to ensure a greater degree of effective competition.

Improving public finances: Greater efficiency from contracting or vouchers means lower costs for government-sponsored services and hence budget savings. This makes

privatization an attractive strategy for politicians of varying political persuasions. In addition, asset sales can lead to large inflows of cash for a financially strapped government. This has led some economists to criticize asset sales as a "smoke-and-mirrors" budget device with no net economic or public finance impact. That is faulty analysis. Besides the benefits to the national economy of debureaucratization, the taxpayer gains because the market price of the asset up for sale reflects a valuation based on higher potential performance in the private sector. Hence the sales revenue is higher than the present value of the future stream of income from the asset in (less efficient) government hands.

Privatization does not mean that government is abrogating its responsibilities. When a society, through its representative system, instructs government to make sure that a certain goal is achieved, or service provided, that does not mean government itself necessarily is the best vehicle to undertake that action. Increasingly, governments are recognizing that through privatization, the powerful incentives and efficiency of private ownership and markets can be utilized to achieve public purposes much more effectively than by direct government provision.

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The Effects of Trade Restrictions Such as Tariffs and Quotas

Because foreign competition hurts some individuals, domestic producers, workers, and suppliers have an incentive to seek government restrictions on the imports of tradables. Of course, some industries such as communications, services, and utilities are largely nontradables and are therefore largely insulated from foreign competition without trade restrictions. Two forms of protection are commonly used, tariffs and quotas. A **tariff** is a special tax or duty on imported or exported goods that can be a percentage of the price (*ad valorem* duty) or a specific amount per unit of the product (specific duty). A tariff may be imposed to raise money for the levying country–typically, revenues are modest on commodities not produced in the levying country–or in the more likely case, to protect some industry against the cold winds of competition. A **quota** is a physical or dollar value limit–mandatory or voluntary–on the amount of a good that can be imported or exported during some specified period of time. There are other nontariff barriers such as controlling the flow of foreign exchange licensing requirements, or health, quality, or safety restriction on products.

If tariffs are imposed on a foreign good such as textiles, the supply of textiles will decrease–say, from S_2 toward S_1 in Figure 34.4–and the price of imports will rise. Domestic producers will raise their prices too, and domestic production will go up. If the tariff is high and all foreign textiles are excluded, the supply will shift all the way back to S_1. A small tariff will have a more modest effect, shifting the supply curve only part of the way back toward S_1. The price of textiles will rise and domestic producers will expand their production, but imports will continue to come into the country. How much the price rises and the quantity falls after the imposition of the tariff depends on how price-elastic or flat the demand curve (D) is. The more elastic D is, the greater the fall in quantity and the greater the rise in price. The imposition of a duty can cause the taxed good in the importing country to increase by exactly the amount of the duty, less than the duty, or in the extreme case, not at all (depending on price elasticity). In the most likely case (of increasing cost conditions and a rising supply curve) a tariff will cause the price to increase in the importing country by less than the amount of the duty as the price falls in the foreign country. The tariff will cause the domestic and foreign price to differ by exactly the amount of the tariff, but the price increase in the importing country is equal to the tariff minus the fall in price in the exporting country. Thus, in Figure 34.4, starting from point c, the increase in the price in the importing country from P_1 to P_2 is less than the tariff equal to ad, shifting the supply curve from S_2 to S_1 as part of the duty is shifted to the exporting country where the price falls. For instance, a tariff of \$3 per unit may cause the import price to rise by \$2 and the export price to fall by \$1 with both nations absorbing part of the burden of the tariff. Who bears the biggest burden is a matter of relative price elasticity, just as whether buyers or sellers bear the burden of a domestic excise tax. As always, the more inelastic the demand of the buyers and the more elastic the supply of the sellers, the biggest burden of any tax–domestic (e.g., excise) or foreign (e.g., an import duty)–that falls on the buyers.

A quota has the same general effect as a tariff, although its price-cost effect can be much more drastic. They both reduce the market supply, raise the market price, and encourage domestic production, thereby helping domestic producers and harming domestic consumers. A quota, however, can sever international price-cost links because the market mechanism for relating the prices of different nations is artificially stopped from functioning. Nonetheless, quotas are sometimes imposed by nations because they are a more certain and precise technique of control, and can be changed by administrative decree.

There are three main differences between quotas and tariffs. First, quotas firmly restrict the amount of a product that can be imported, regardless of market conditions. A quota may specify how much oil may be imported each day or how much sugar each year. Tariffs, on the other hand, permit any level of importation for which consumers are willing to pay. Thus, if demand for the product increases, imports may rise. (There is a hybrid called a "tariff quota" that sets the amount beyond which higher tariffs apply, but does not set a fixed limit on importation or exportation).

The first Reagan administration imposed quotas on steel, copper, textiles, and autos from Japan. In 1984 the so-called voluntary restraint program forced Japan to restrict auto sales in the United States to 1.84 million cars. Foreign cars now represent about 25 percent of U.S. sales. Because Japanese supply was not allowed to keep pace with the rapidly expanding U.S. demand, the price of Japanese cars rose, more expensive models were imported, and consumers faced longer waiting lists for Japanese cars. The prices of American cars also rose. These consequences led to the termination of the voluntary restraint program in 1985.

The second major difference between tariffs and quotas is that quotas are typically specified for each important foreign producer. Otherwise, all foreign producers would rush to sell their goods before the quota was reached. When quotas are rationed in this way, more detailed government enforcement is required. Tariffs place no such restriction on individual producers. Moreover, the tariff is collected by the government in custom duties while price enhancement with a quota goes as a windfall gain to the fortunate few with import licenses.

Finally, quotas enable foreign firms to raise their prices and extract more income from consumers. One economist estimated that the Reagan administration's voluntary restraint program permitted Japanese auto producers to raise their prices high enough to take an additional $2,500 per car, or $5 billion, out of the American market. As a result of the protectionist shield, U.S. automakers raised domestic car prices $1,000 per car, or $8 billion per year, in 1984 and 1985. Tariffs, on the other hand, force foreign firms to lower their prices to offset the increase from the tariff. They also generate income for the federal government. Although tariffs and quotas promote a less efficient allocation of the world's scarce resources, because of the private benefits to be gained from tariffs and quotas we should expect an industry to seek them as long as their market benefits exceed their political cost. Politicians are likely to expect votes and campaign contributions in return for tariff

legislation that generates highly visible benefits to special interests. Producers (and labor) will usually make the necessary contributions, because the elimination of foreign competition promises increased revenues in the protected industries. The difference between the increase in profits due to import restrictions and the amount spent on political activity can be seen as a kind of profit in itself. Surprisingly, protectionism may sometimes also be supported by exporters, as a tariff or quota can stimulate net exports. Since protectionism also causes the exchange rate to appreciate, however, this discourages exports and offsets partially or wholly the tariff-driven increase in net exports.

Consumers, on the other hand, have reason to oppose tariffs or quotas on imported products. Such legislation inevitably causes prices to rise, as a tariff amounts to a subsidy to the domestic producer of the dutiable product, paid for largely by the consumers of that product in the form of higher prices. Consumers typically do not offer very much resistance, however, because the effects of tariffs and quotas are hard to perceive. Unlike a sales tax, the cost of a tariff is not rung up separately at the cash register, and many consumers do not reason through the complex effects of a tariff or consumer prices. In fact, many, if not most, consumers feel that tariffs on foreign automobile, steel, or copper producers are good for the nation and for themselves. "Buy American" slogans and advertisements emphasizing the need to preserve American jobs are generally effective in swaying public opinion. One comprehensive investigation showed that protection in thirty-one countries cost consumers $53 billion in 1984, while providing only $40 billion in benefits to the producers.

As a group, consumers have less incentive to oppose tariffs than industry has to support them, as the costs to individual consumers and taxpayer are negligible and largely hidden. The benefits of a tariff accrue principally to a relatively small group of firms, whose lobby may already be well entrenched in Washington. These firms have a strong incentive to be fully informed on the issue and to make campaign contributions, but the harmful effects of a tariff are diffused over an extremely large group of consumers. The financial burden any one consumer bears may be very slight particularly if the tariff in question is small, as most tariffs are. As a result, the individual consumer has little incentive to become informed on tariff legislation or to make political contributions to lobbies that support such legislation. Although consumers as a whole may share an interest in opposing tariffs, collective action must still be undertaken by individuals–and individuals will not incur the cost of organizing unless they expect to receive compensating private benefit.

At some level of increased cost, of course, consumers will find the necessary incentive to oppose tariff legislation. For this reason Congress rarely passes tariffs high enough to make importation totally unprofitable. Even low tariffs reduce the nation's real income while redistributing it toward protected sectors. The size of the pie is reduced, but the protected few get a bigger slice. In spite of all the impediments to free trade imposed by the U.S. economy, there has been a substantial increase in our dollar volume of imports and exports over the las thirty years. Similarly, world trade has increased in the last three decades. Over 15 percent of the world's production is now consumed in a different nation than where it was produced. Put differently, the dollar value of imports to all countries has increased tenfold since 1950.

According to Alan S. Blinder, the case against protectionism, described as a negative-sum game, where the losing consumers lose more than the winning protected producers win, involves even more problems. There are four other problems with trade restrictions. First, protectionism allows high-cost producers that would otherwise fail to survive. Second, trade restrictions have a habit of affecting other industries. For example, automobiles need protection because the ball bearings, steel, and textiles that provide inputs to automobiles are protected. Third, foreign nations often retaliate against protectionism. tit-for-tat is the modus operandi in international trade: Country A raises barriers on product X because Country B did it to product Y. Fourth, trade restrictions aren't really job-saving or job-creating, but job-swapping. Protectionism raises the exchange rate, hurting exports in unprotected industries. Because in the long run the value of exports must be equal to the value of imports, we end up swapping jobs in efficient unprotected industries for those in inefficient protected industries.

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ENTREPRENEURSHIP FOR SMALL BUSINESS INSTITUTES IN POLAND

Part Two

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ENTREPRENEURSHIP FOR SMALL BUSINESS INSTITUTES IN POLAND

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FOREWORD

The United States Agency for International Development (U.S.AID) sponsored this project as part of the U.S.Congress initiative entitled Secure Eastern European Democracy (SEED Act). This project is one of a number of university-based initiatives to provide education for university faculty in emerging countries about business management and economics in support of the newly established market economy.

Since June of 1991, the International Enterprise Academy at The Ohio State University has worked cooperatively with the Solidarity Economic Foundation in Gdańsk, Poland, to facilitate the creation of three Polish-American Enterprise Institutes in connection with the universities in Białystok, Poznań and Rzeszów. In each site two coordinators and fifteen or more faculty members have established courses for business owners in Entrepreneurship, Marketing, Management, Finance, Strategic Planning, and Export-Import. In addition, we developed skills among the faculty for business advising in these areas and developed case studies of Polish entrepreneurs.

The development of the six curriculum products took place over a two-year period and were the cooperative efforts of the coordinators from the Polish Institutes and the faculty from various American Universities. We are indebted to the following people for their dedication, patience and understanding in addition to their outstanding expertise in the area.

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CASE STUDIES OF POLISH ENTREPRENEURS

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The editors of these six curriculum products deserve special thanks for two years of attention to detail and schedules that everyone thought was impossible. Both Piotr Koryński and Elżbieta Jacowicz have masters degrees in economics from the University of Gdańsk in Poland. Since the beginning of this project, they have worked at The Ohio State University in an effort to make these curriculum products appropriate for use in their country.

We also thank the secretaries in both countries and others who worked hard on these six very ambitious curriculum projects. At The Ohio State University we especially want to thank Barbara Rahe, Jeanne Thomas, Janet Ray, and Kathy Summerfield. In Poland, we want to thank Dagmara Topolewicz, Ewa Dratwa, Małgorzata Tyburczy, Edyta Rusin and Dorota Małaszkiewicz.

Because these curriculum products include many copyrighted materials that we have obtained limited permission to use for this project, this product may not be published or used for other purposes without express permission from The Center on Education and Training for Employment at The Ohio State University.

We believe that these materials will provide long-term benefits to the faculty for whom they were designed and the business owners who will participate in their courses. We hope that these American models of business training will make a difference in the communities where they are used and impact on their success in a market economy.

M. Catherine Ashmore
Director, International Enterprise Academy

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We also are indebted to the publishers or authors who gave permission to use selected portions of their copyrighted materials. They include:

Working Woman Magazine
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Inc. Magazine
Business Week
Small Business Forum
National Center for Research in Vocational Education
Center on Education and Training for Employment

ENTREPRENEURSHIP MODULE

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INTRODUCTION

Entrepreneurship is a comprehensive group of competencies that address the unique approach to managing a business when you must be responsible for everything in a business and constantly able to change as new challenges arise. This course consists of a 30-hour training module. Many of the competencies in other courses in the Entrepreneurship Institute Program might also be considered "entrepreneurship". For this program you will develop the following competencies in the Entrepreneurship Course:

- Use competencies from all entrepreneurship functions to develop a business plan.
- Explain the advantages of certain characteristics (behaviors) generally seen in entrepreneurs.
- Apply a creative thinking process.
- Explain the current economic situation and apply it to your business.
- Identify opportunities for your business to expand.
- Analyze challenges and successes of other entrepreneurs.
- Locate resources needed to help the business.
- Determine how human relations skills should be used in your business.
- Establish moral and ethical values as a business person.
- Develop systems to use the computer in your business (spreadsheets, word processing, etc.)
- Know how to use business law.

OPPORTUNITIES, EXPANSION, SUCCESS AND RESOURCES

UNIT 5

Title: **OPPORTUNITIES, EXPANSION, SUCCESS & RESOURCES**

Purpose: Upon completion of this unit, the participant will be able to identify some business opportunities and ways of expanding their business.

Objectives: The participants will–

- identify some business opportunities
- discuss small business expansion
- identify some successful businesses

Materials:

Transparency 5-1: Opportunities to Expand

Handout 5-1:	Public Image
Handout 5-2:	The Dream Team
Handout 5-3:	Culture Club
Handout 5-4:	The Customer Knows Best
Handout 5-5:	The Practical Genius of Penny Candy
Handout 5-6:	A Tale of Evolution
Handout 5-7:	Over There
Handout 5-8:	Who Will Buy? Probing the Mail Ego
Handout 5-9:	Cash in on Your Bright Ideas
Handout 5-10:	Cash Study on finding new opportunities by starting a new business
Handout 5-11:	Individual/Group Exercises on Researching Local Businesses
Video Tape:	Polish Business Success Stories
Video Tape:	I Can Do It! (American Business Success Stories)

* Panel Discussion of Polish Entrepreneurs – The Risks and Rewards of Entrepreneurship!

Product: None

Assignment: To look for business opportunities and business success

Note to Instructor: None

Estimated Time:

Overview of handouts and discussion of business opportunities	30 minutes
Discussion of business success stories	30 minutes
Discussion of business options	

UNIT 5

Opportunities to Expand, Success & Resources

CONTENT	PROCESS
How Can an Entrepreneur Find Opportunities for Expansion, Success & Resources?	
In this unit, the participant will learn about opportunities and ways to expand and the resources that are available to help the business be successful.	Instructor will discuss opportunities that can lead to expansion.
Opportunities are everywhere. Some opportunities to expand might include a new way of thinking about the marketing of a business. New and fresh marketing techniques are ways of expanding that many companies fail to use. Adding a service to a product business, sending all types of greeting cards to customers as well as employees, giving something as a gift to clients, delivering products and increasing public visibility is vital to the success of any business. Public relations with news articles, contest for children, and asking customers for input into product lines are a few of the ways public relation can add to the expansion of a business.	Instructor will show overhead: TP 1-5: Opportunities to Expand Participants will be divided into groups of four to five participants. Each group will develop new and different business ideas that can be started in Poland. The ideas should be different from the standard businesses that now exist in Poland. Both expansion and new business ideas can be developed. At the end of the break out sessions, the participants will return and each group will share their group's list of new and different businesses.
Other ways to expand might include exporting of products, franchising, and incubator or satellite locations.	
Many companies are diversifying by adding other products for sales, both related and nonrelated items. It seems that the trend is to try to offer as many different lines or services as possible and thus spreading the opportunities for profit.	

CONTENT	PROCESS
An example of success can be seen in the I Can Do It Video where a woman turns her knowledge of travel into a full-time travel agency.	Group will view the video "I Can Do It!" and discuss their thoughts about opportunities and expansion.
Publicity is necessary for all businesses. Many companies agree that getting free publicity is more effective than sales-oriented advertising. Sponsoring special events and seminars, articles in newspapers, helping children's or local civic organizations, writing 'how-to' articles on a monthly basis are a few ideas of emphasizing publicity.	Instructor will distribute and discuss handout: HO 5-1: Strategies for Expansion: "Public Image." Participants will share their ideas on public image.
Article quote, "If you don't learn how to promote yourself, you're out of business."	
Franchising, a common business form in the U.S. offers another means of expansion. As a franchisor, you sell a different product to a different customer base. You are selling a business plan to others who will in turn sell the product or service to the customer.	Instructor will distribute handout: HO 5-2: The Dream Team Instructor will define franchise. Participants will discuss the franchise form of business.
Providing quality service to franchises must be a key consideration as well as providing support to the franchisee. The ideal situation is that the franchisee and franchisor becomes a team working for the same end... a successful business.	
A very timely way to expand today is international marketing–that of offering country specific products. A store that sells nothing but Scottish items in the U.S. might develop a specialized customer base. Each culture has a lot to offer and many want to buy country specific items.	Instructor will distribute and discuss handout: HO 5-3: Culture Club Participants will share ideas of other culture related businesses.

CONTENT	PROCESS
Expansion can also be made through direct communications with customers. The customer knows what they want and appreciate being asked for input. The time it takes to poll customers will be time well spent. It can create positive and loyal feelings for the company. It can also point out problem spots with the company that otherwise might go unnoticed.	Instructor will distribute and discuss handout: HO 5-4: Strategies for Business Expansion: "Customer Knows Best"
A perfect example of expansion is that of a 60 year old company that started in the U.S. in 1931. The penny candy, tootsie roll, still is on the market today, but of course it costs more than a penny. Many additional product lines have been added, but the company grew and changed with the needs and desires of the consumer.	Instructor will distribute and discuss handout: HO 5-5: The Practical Genius of Penny Candy
A chronological pattern of a business is basically divided into four processes. It starts with the initial startup process, next is the expansion of the business followed by the third phase that of selling the business. The last process is that of starting over.	Instructor will distribute and discuss handout: HO 5-6: A Tale of Evolution Participants will share thoughts about the four processes of evolution in business.
Import-export is a very positive way of expanding. In the U.S. various agencies, materials and helps have been developed to help entrepreneurs to export to other countries. Some of the directions for U.S. exports can be applied to Polish companies that might be interested in exporting their products or importing U.S. items for sale in Poland.	Instructor will distribute and discuss handout: HO 5-7: Over There
Mail order is becoming a profitable way to add to product companies. Of course the mail and shipping industries must be studied before one should enter this venture.	Instructor will distribute and discuss handout: HO 5-8: Who Will Buy? Probing the Mail Ego

CONTENT	PROCESS
The business that becomes aggressive in the global market will be an expanding business. There are many ways to become educated on global marketing. Several publications are available and foreign trade shows offer first hand information.	Instructor will distribute and discuss handout: HO 5-9: Cash in on Your Bright Ideas
Another example of a success is Milton Hersey. He had a desire to have a candy factory, but had failed several times. Finally he succeeded and today some thirty years later, the Hersey chocolate candy bar is still a big seller. Hersey Kisses are also one of the old favorites that Milton developed. There are many, many more American business success stories as well as Polish success stories.	Participants will discuss Polish business success stories.
Resources That Can Help the Entrepreneur There are many resources available to entrepreneurs. Networking is one of the best ways to learn about what's happening in business. By meeting with other business owners and sharing both success and failures, the business owner can learn things to do and things not to do. There are also many business magazines that offer helps. As opposed to the text book that is usually very deep in theory, a business publication may give very timely and useful techniques that entrepreneurs can use to improve their business position.	Instructor will give examples of ways to network and create resources. Participants will break into small groups and develop a list of resources that will be of help in their business venture. Instructor will hand out samples of business magazines: Polish - The Business Man English - Your Own Business (The Isuzu Guide to Small Business Success) Instructor will distribute and discuss handouts: HO 5-10: Case Study on Finding New Opportunity by Starting a New Business HO 5-11: Individual/Group Exercise on Researching Local Businesses

CONTENT	PROCESS
	Participants will again break into groups to develop new business ideas. It is hoped that the ideas now will be different and the list will be more extensive than when the activity was completed at the first of this unit. When the groups complete their lists, they will again share them with the group.

OPPORTUNITIES TO EXPAND

Customer Service

Taking Your Business Global

Franchising

Attention to Details

Direct Mail

Intercultural Products & Services

Promotional Activities

Profitable Niches

Employee Satisfaction

Promotion - Public Image

ENTREPRENEURSHIP COMPETENCY: OPPORTUNITIES TO EXPAND

"STRATEGIES FOR EXPANSION"

Cook, W.M. (1991, September). *Entrepreneur*. pp. 40-43.

"Public Image"

When it comes to publicity, restaurateur John Trujillo III says serve it often but hold the hard sell.

The owner of a family restaurant in Littleton, Colorado, Trujillo has an advertising program that runs the gamut from television to print, but his most effective publicity comes from long-term community activities that keep Million Trujillo Restaurant in the public eye.

"It's very important for us to be involved locally," says Trujillo. "We want to be known as a powerful presence in the community, not just some business that sits back, makes money and puts it in the bank."

To that end, Trujillo, whose restaurant won the 1991 U.S. Chamber of Commerce Blue Chip Enterprise Award, is heavily involved with the town arts center, hospital foundation, community college and chamber of commerce. A candidate for the Colorado State Legislature, he sponsors charity benefits for a senior citizens' home and disabled citizens' center. His Mexican restaurant is also involved in almost every community festival and sponsors more than a dozen adult and youth sports teams. Says Trujillo, "These activities take up a lot of time, but they keep our name in the paper."

Going Public

Small-business experts agree that some of the most cost-effective and successful promotional activities are long-term publicity efforts, rather than sales-oriented advertising.

"The major problem small businesses face is the limited funds they have for advertising," contends Max Fallek, director of the American Institute for Small Business (AISB) in Minneapolis, which publishes entrepreneurship materials. "That's why alternative avenues such as public relations are very important for them."

"Small businesses are among the best candidates for public relations because promotional programs can be relatively inexpensive," says Andrea Obston, president of Andrea Obston Marketing Communications, a public relations and consultation firm in Bloomfield, Connecticut.

Even advertising executives agree public relations efforts are often the best alternative for small businesses.

"I hate to see advertising dollars wasted on poor ads, or poor placement of good ads," says Kathleen King, president of King Unlimited, an advertising agency in Loveland, Colorado.

Small business is big news today. Most business publications and local newspapers are interested in this sector of the economy, and that means they're interested in writing about your business.

"A lot of things that occur in the everyday operations of small business are legitimate news items," says Obston. "For example, every time you add a new product line, open a new store or hire new staff, that's news."

While such "housekeeping" bits of news do not generate major stories by the media, they do turn up as small items that give your business a constant presence in the community.

Sponsoring special events and seminars is another way to keep your small business in the public eye.

Reprinted with permission from Entrepreneur Magazine, September 1991

Special events can be powerful tools for small businesses, but require a significant investment of time and energy. Also be aware that they are not business-generating vehicles in themselves.

"We're heavily involved in special events," says Trujillo, "but they are not geared toward restaurant events, such as a special Mother's Day promotion. We go for the long-term exposure generated through community events such as festivals and parades.

"There's not a special event or festival in this city that we are not involved with," Trujillo continues. "It takes a lot of time, but we do it because we want to better the community, and it also helps us sell meals over the long term." There can be other benefits besides–Mission Trujillo Restaurant recently won first place for its float in two Littleton parades.

Get the Word Out

Understanding which events are newsworthy is only half the battle. News is not news if the media doesn't cover it. Therefore, you also need to learn how to get your story told.

Obston, who also teaches adult education classes on small-business development, believes small businesses frequently use public relations erroneously. "Too often, they try to push self-serving publicity on the media," she says. A public relations agency can help in this area.

While the standard vehicle for delivering a message to the media is the press release, it doesn't end there. You also need to know where to send it and to whom to address it.

The AISB's Fallek suggests small businesses consider several types of media outlets as audiences for their releases. Local newspapers and business publications, radio stations, small television and cable stations (many of which have community bulletin boards), city government mailings, and even community bulletin boards (found in many grocery stores) can help deliver your news.

Obston recommends sending out releases on a regular basis. "This is a proactive way of generating news," she says. For example, she says sending out "how-to" articles once a month helps establish a business owner as an expert. "A flower shop can send out an article on how to decorate a wedding reception," she says, adding that these "how-to" articles have real value for readers and highlight the knowledge and expertise that makes your company unique.

Publish or Perish

Of course, this type of publicity activity takes a lot of time and effort–sometimes more than you may be able to handle on your own. If that's the case, consider retaining outside help.

Use the following guidelines when hiring a public relations agency:

- *Comfort.* You will spend a lot of time with the agency's staff, so you must feel comfortable with them, their work ethics, personalities, and so on.
- *Specialists.* Look for people who specialize in public relations, not an ad agency that dabbles in public relations.
- *Experience.* Don't let someone learn the business while servicing you. Look for someone who has been around awhile.
- *Exclusiveness.* If the company already represents a competitor, look elsewhere.
- *Expertise.* Find someone who has a background in your particular industry.

You don't have to hire a public relations agency, however. Trujillo, for example, says he feels more comfortable handling all his promotional activities in-house.

Trujillo's final piece of advice: "If you don't learn how to promote yourself, you're out of business."

ENTREPRENEURSHIP COMPETENCY: OPPORTUNITIES TO EXPAND

"THE DREAM TEAM"

Strozier, G.M. (1991, January). Entrepreneur. pp. 245-249.

Sooner or later, the day comes when most successful business owners think about expanding. Once you have learned how to run a profitable business, it seems relatively simple to teach someone else how to run its mirror image on the other side of town or in the next state. So a franchise system is born.

But it really isn't so simple. Unless the potential franchisor recognizes that he or she has now embarked on an entirely new kind of business, the system will die just as quickly as it started.

Running a restaurant, print shop, maid service, or any other small business is a far cry from running a franchise operation. As a franchisor, you sell a different product to a different customer base. You are no longer selling food or cleaning houses. You are selling a business plan to others, who will in turn sell the food or clean the houses. Your customers are no longer the people buying the food or services; they are now the franchisees, and they have very different requirements. Franchising is a totally different kind of business demanding different attitudes and staff. The sooner you recognize this, the better off your franchise system will be.

Take TriMark Inc., for example. This Wilmington, Delaware-based direct-mail advertising franchise started in 1969, persuading local businesspeople that it was more economical to include their advertisements in an envelope with a dozen or so noncompeting businesses than to send out their own independent mailings.

TriMark was so successful that owner John Kinch decided to franchise the concept in 1978. "It was clear right from the start that I was no longer in the business of selling direct-mail advertising," says Kinch. "I was now selling franchises."

TriMark's principal claim to fame is making things easy for its franchisees, asking only that they go out and sell the advertising. The rest of the process–designing and printing ads, stuffing the envelopes and mailing–is done by TriMark's corporate staff, generally at a lower cost than franchisees could arrange for themselves. How does TriMark achieve this? It has its very own production facilities with state-of-the-art design and printing equipment. This also allows TriMark to give each order the kind of attention outside vendors might not devote to it. So TriMark's franchise team includes design and printing experts who understand the importance of getting franchisees' orders out on time.

Kinch has built the TriMark team with an eye to developing an *esprit de corps* and a willingness to understand the needs of franchises. For example, TriMark's staff lawyer not only services the corporate office, but is always available to provide franchisees with legal advice on state and local regulations and other matters pertaining to the direct-mail business. The marketing staff works to design materials on sales techniques and general business assistance for franchisees, and a research staff develops new ways to design advertising and package products more effectively. "All these services are simply beyond the reach of the small independent businessperson," says Kinch.

Service With A Smile

Providing quality service to franchisees must be a key consideration. If franchisees don't feel they are receiving something of value in exchange for joining the franchise, the system is in trouble.

"If you don't have happy franchise owners, you don't sell many franchises," says Carla Garbin, co-owner and senior vice president of Little Professor Book Centers Inc., in Ann Arbor, Michigan. "If you try to get by without hiring your staff specifically to provide new and expanding services, you'll simply lose your franchise owners."

Reprinted with permission from Entrepreneur Magazine, January 1991.

While providing support is clearly a key component in a franchise team, equally crucial is the attitude with which that service is delivered, says Garbin. Many of her franchise owners are former senior corporate middle managers who left the world of big business in search of independence and respect. "If you take the 'my way or the highway' approach, you've lost them," Garbin says. Respect is everything, and unless pains are taken to instill a respectful attitude in all the members of the franchise team, a certain "us vs. them" attitude can evolve," Garbin says. That's the kiss of death for the franchise system.

Kinch says the first and foremost consideration for him is the attitude a new employee demonstrates toward franchisees. It isn't always easy to spot that attitude in an interview, he warns. A glossy resume is not the only thing Kinch looks for; rather, he seeks commitment to the system and respect for franchisees.

Working Together

A good franchise team must demonstrate it understands the franchisee's perspective. One approach successfully used by The PrintHouse Express, a quick-print and print-brokering company based in Sterling, Virginia, is to require that every member of the corporate staff spend some time working in a franchise. Tom Galloway, owner of The PrintHouse Express, started out as a franchisee himself, and many people on his staff have worked for franchisees or in company-owned franchises. Anyone willing to do this, he says, is not welcome at The PrintHouse Express.

"One thing we do very well is understand the franchisee's point of view, because our staff is experienced in our industry and with working in the company store, in particular," says Andre Redmond, The PrintHouse Express's director of operations and former manager of a company-owned franchise. "Prospective franchisees look to us to tell them what to expect, and obviously, our people are well-qualified for that. Few other franchises have such staff involvement."

According to redmond, The PrintHouse Express's ability to bridge the traditional separation between quick-print shops and commercial printers is what sets it apart from everyone else. "There's always been a deep rift between the two," he says. "Quick printers typically do not handle big jobs requiring web presses or special binding services, so those customers have to take their business elsewhere. We solve that by providing our franchisees with a network of vendors who can serve all aspects of the printing business, including the big jobs." His franchise team has the expertise to negotiate these services at a competitive price a small independent print shop could not obtain for itself.

Sonitrol Corp., a security system franchise based in Alexandria, Virginia, also offers a special edge: Its monitoring service is staffed by specialists trained to distinguish between false alarms and the real thing. The system is based on a sound-activated system that alerts the monitoring staff when it "hears" breaking glass or any other loud noise. The system also records the noises so the business owner or homeowner and police have evidence they can use in case of legal action."

"We don't sell burglar alarms, we sell a service, and our staff is committed to providing that service," says Bill Bell, company vice president and director of national sales. "We take it personally. Our dealers are all in their communities for the long haul they are tied to the safety of the community."

Learning the Ropes

Getting franchisees to focus on the system's long-range goals is a key element in successful franchisee training. At Little Professor, franchisees not only learn the system, says Garbin, but they learn the trainers are there to help them build their business.

John Kinch of TriMark says a good staff must make sure the franchise concept is passed along to each new franchisee in a coherent and orderly fashion. And once training is over, the TriMark staff assures all franchisees they will not be left to start the business alone. Everyone is provided with a sales coordinator as well as franchisee manuals to see him or her through those early weeks.

As a franchisor, your first concern should be making the franchisees feel they are supported. "Franchisees are a special breed; they have to be treated with kid gloves," says Kinch. "You have to hold their hands at the right times and always treat them with respect. After all, franchisees are business owners, not employees, and any franchisor who forgets that does so at his own peril."

Little Professor calls its corporate office the "home office," according to Garbin, "to reinforce we're not their boss but someone they can turn to for assistance." When hiring for that home office, Garbin says, she looks for people with good communications skills, because "our job is not to dictate but to persuade." Huge franchise systems may be ale to insist on discipline in franchisees because they have the muscle to fight refusals, she says, but smaller franchises would be foolish to try this.

In addition to support staff, you need a skilled sales team. Selling a franchise is nothing like selling a product, Bell contends. The process is encircled with federal and state red tape, and neglect of even one of the intricate details can cost a franchisor dearly. Equally important is a sales staff that realizes it's self-defeating to sell franchises unless you have enough staff to support them.

Garbin agrees franchise systems that put a disproportionate emphasis on franchise sales at the expense of service staff are headed for trouble. Such an approach will sell a lot of franchises, but leave the franchise owners with insufficient support once they are on board. That soon makes for unhappy franchisees. Some franchisors spend as much as 50 percent of their payroll on sales operations. Little Professor devotes only about 15 percent of its payroll to such activities; the rest goes to service staff. Says Garbin, "It's clear where our priorities lie."

ENTREPRENEURSHIP COMPETENCY: OPPORTUNITIES TO EXPAND

"CULTURE CLUB"

Fadel, K. (1991, May). *Entrepreneur*. pp. 85-93.

A Mexican restaurant in Cambridge, Massachusetts? A Scottish retail store in Long Beach, California? A bookstore in Chicago that sells only Russian literature? What are these ethnic businesses doing where you'd least expect them? Flourishing, that's what.

You've probably heard you shouldn't take something out of its natural environment–it would be like taking a fish out of water–but these successful ethnic businesses prove there are exceptions to the rule. These small-business owners have discovered people love to escape to other cultures, even if the escape is an momentary a pleasure as trying on a Scottish kilt, buying a blouse made in Indonesia or reading Soviet literature. Just look at the popularity of Oktoberfests around the country.

"Each culture has a lot to offer," says Carole Balzeka Miller, executive director of the Ethnic Cultural Preservation Council in Chicago. "And people seem to be very interested in learning about and supporting other cultures."

For example, *National Geographic* Magazine's international circulation of more than 10 million readers proves people are interested in worldwide cultures. And small businesses focusing on different cultures are cashing in on this interest.

We've discovered eight entrepreneurs who have brought different cultures to the United States and built businesses around them–not solely for the sake of financial gain, but to spread cultural awareness as well.

A Taste of Scotland

Eloquent accents. Bagpipe music. Scottish kilts. If the chance to travel overseas is not in your immediate future, you might as well step into one of the three Scottish Heritage Center stores in Southern California, owned and operated by Marjorie Rankine, 51, who is of Scottish descent.

In 1983, Rankine and her husband, Andrew, opened the first Scottish Heritage Center in Long Beach, California. "The first store was opened quite by accident," says Rankine. Andrew, a renowned Scottish musician and composer, went to the popular Queen Mary attraction in Long Beach and thought it would be an excellent place for him to play Scottish music. He asked the ship's management if there were any openings, but didn't specify what for. They assumed he was interested in opening a retail shop and offered him a retail space.

"Andrew came back to England and asked me if I'd like to go to California and open a shop," says Rankine. "I agreed, left my position in England as an accounting administration manager, and we opened shop."

The store was such a success–making $150,000 its first year–that within two years, the couple opened another Scottish Heritage Center in Huntington Beach, California. Then, something unexpected happened: Andrew passed away, and Rankine found herself running both stores. "When you're thrown in the deep end, you just have to start swimming," Rankine says. "My greatest challenge was running the business without Andrew, because I didn't have him to bounce business ideas off."

Considering the circumstances, it seems she swam quite well. But Rankine attributes much of her stores' success to her employees. "I have excellent managers and employees who have a lot of Scottish knowledge," she boasts. And with products such as Scottish and Irish music videos and compact discs, international coats of arms, British food and Scottish national dress, employees who know the country's culture are a necessity–especially when customers purchase items that cost close to $500. In the near future, Rankine plans to focus on the needs of dancers and Scottish musicians by expanding the line of dancers' costumes in her Huntington Beach store.

Reprinted with permission from Entrepreneur Magazine, May 1991.

"People always ask me if I feel homesick," says Rankine. "I don't, because I'm very much in touch with my heritage. I talk about my country every day–the places I've been and the music. I'm learning about Scottish history all the time."

The Scottish Heritage Center stores attract all types of people–especially Americans with Scottish heritage, who make up the majority of Rankine's customers. "They take a keen interest in their backgrounds and Scottish history," Rankine notes. And it shows: Rankine's Scottish Heritage Centers brought in 1990 sales of more than half a million dollars.

Viva Latin!

You're walking down Wooster Street in New York City and suddenly you spot this uniquely decorated retail store. It's definitely different, so you step in. You see a variety of women's clothing and accessories from India, Indonesia, Sri Lanka, Portugal, Hong Kong, Uruguay and Guatemala. But you figure in New York anything is possible. You soon discover there are three more of these avant-garde retail stores in New York and one in Washington, DC, plus an outlet opening in New Bedford, Massachusetts. That can only mean one thing: Business is booming.

The store, called Putumayo, was named after a river in South America. Putumayo was started in 1975 by Dan Storper, 39, who still owns and operates it. But retail is only half of Storper's business–wholesale makes up the other half. Storper's international folkloric-inspired merchandise has become so popular, it is sold in more than 600 stores across the country.

But success didn't happen overnight. At the young age of 16, Storper took a trip to Mexico and visited remote Mexican villages with his uncle and archaeologist aunt. "I fell in love with the handicrafts," he explains. After that experience, Storper dreamed of owning a business that imported Latin American handicrafts. Seven years later, after majoring in Latin studies in college, Storper traveled to Colombia, Ecuador, Peru and Bolivia, purchased $3,000 worth of merchandise, brought the products back to the United States and began selling them at art shows in New York. The following year, he opened Putumayo.

"I've always been interested in traditional cultures," says Storper, "and I'm especially intrigued by traditional cultures trying to adapt to our modern environment." In addition to imported items, Putumayo's country and folk designs are made by the stores' designers with the intention of preserving traditional styles. "The spirit of creativity–something that's been around for many centuries–is quickly being lost," Storper claims.

Over the years, Putumayo's inventory has shifted from handicrafts and folk art to women's clothing and accessories that cost $10 to $98. "Customers seem to be pretty jaded these days," says Storper. "Things have to be somewhat special to excite them, and I think that's why there is a desire for new and unusual items."

But within the next few years, Storper plans to bring crafts, such as basketry and ceramics, back into his stores. "We want to open larger retail stores so that we can offer a greater variety of merchandise," he says.

Putumayo's fashions are so new and unusual that they have hit the pages of fashion magazines such as *Mademoiselle*, *Glamour* and *Elle*. "It seems we always have a little bit of what is 'in' at certain times," says Storper. "I like to feel as though we're bringing people together by teaching Americans what other cultures are like."

Putumayo attracts people from nearly all walks of life–especially at the New York City store. "We've had all types of celebrities in here, from Jane Fonda to Mary Tyler Moore," says Storper. "And within a two-week period, Bette Davis and Greta Garbo stopped in."

Considering Putumayo's popularity, it's not surprising that retail and wholesale sales for 1991 are projected at more than $10 million. "The store's number-one goal isn't always to make a profit," stresses Storper. "If you offer something that has real value, you feel good about what you're doing and will most likely be adding something positive to society."

Adding something positive to society is an understatement. Besides cultivating ethnic awareness, Storper also contributes time and money to various social groups and donates thousands of dollars worth of merchandise to the homeless and victims of natural disasters such as hurricanes. Another Storper touch: giving discounts to people who don't take shopping bags. he explains, "We're very conscious about recycling."

Out of Africa

To many Americans, Africa brings to mind exotic animals and safari trips. But there is another side of the vast country that is not as well known. Ignacio Villarreal, 46, and Ford Wheeler, 45, owners of Craft Caravan in New York City, are about to change all that. "We import traditional handicrafts from Africa, such as furniture, clothing, jewelry, textiles and sculpture," says Villarreal. "We maintain the culture's traditional aspects. We're not into buying 'airport art' or commercial pieces that are made for tourists."

Maybe that's why street vendors, passersby, museum shops, collectors, galleries, and even people in the film and theater industries have been patrons of Craft Caravan since it opened in 1965. "We're constantly renting and selling our products to costumers for movies and shows," says Villarreal. "We also [loan out our products] to fashion magazines such as *Elle*, *Cosmopolitan*, *Bazaar* and *Vogue*. The exposure is good for business, and it keeps our name out there."

The business was originally started by a husband-and-wife team, and Villarreal and his wife, Caroline, used to buy African pieces from the store to make jewelry. "Things were very different when the business started," Villarreal says. "I remember when you could get a fine trade bead for $20 to $50; now a good one costs a few hundred dollars."

When the original owners retired five years ago, Villarreal and Wheeler–who had worked with them for 15 years–decided to buy the store. "Because we enjoy the business so much, buying it seemed like a logical thing to do," says Villarreal.

Now Villarreal and Wheeler take turns traveling to East and West Africa themselves. "We import everything," Villarreal says, "and our prices range from less than $1 to thousands of dollars. We even have one or two pieces of furniture priced around $6,000."

With unique merchandise, and clientele to match, Craft Caravan is definitely making waves in New York City. But making overwhelming profits is not a primary concern for Villarreal and Wheeler.

"We try not to project sales figures, because doing so could lead to disappointment," Wheeler says. "It's not that we're not interested in making a profit. But just because one item sells well, it doesn't mean we can order 500 more. You have to remember we're not dealing with factories. Fortunately, the person who is in charge of our bookkeeping understands our philosophy and keeps that part of the business away from us."

It's obvious these partners are involved in this business for the love of it. "I enjoy the business," says Villarreal. "Both my partner and I collect what we sell. That's why we continue to do what we do."

Run for the Border

Boca Grande. The name has a nice ring. It means "bit mouth" in Spanish, and it also means a quaint, popular Mexican restaurant in Cambridge, Massachusetts. While opening a Mexican restaurant in Texas or Southern California wouldn't raise any eyebrows, but opening one in Cambridge, Massachusetts, just might.

The spicy restaurant was opened in January 1989 by a "thirty-something" trio: Meg Jandl and Mariko Kamio, who met in Boston while working in real estate, and Kamio's brother, Michael. "We all had similar goals and wanted to try something different, says Jandl. The partners' philosophy concerning the eatery's location is simple and logical. "We traveled throughout the West and fell in love with [Mexican] food, but we couldn't find anything like it in Massachusetts," Jandl says. So instead of moving to the West, the determined owners brought the West to the Eat.

But starting a restaurant with no prior experience wasn't a piece of cake for these young entrepreneurs. "During our trips, we ate at all types of Mexican restaurants, from roadside stands to well-established places," Jandl says. "Anything we liked, we tried to duplicate." But as it turned out, they were never able to duplicate other restaurants' recipes. Instead, the trio made up their own concoctions and tested the food on friends.

Everyone who tried it loved it. Boca Grande's specialty is their Mexican grilled chicken–marinated in special ingredients and cooked on an open grill. "People love our Chicken Burrito Grande," boasts Jandl. "We pile chicken, beans, rice, cheese, a tomato mixture and our own hot sauce on a tortilla, with extra guacamole and sour cream, all for less than $5." The burrito, which requires a "boca grande" to eat it, is their best-selling item and accounts for a third of their business.

When the trio thought Mexican food would hit it big in Cambridge, they were right on target. "We didn't advertise our opening," Jandl says. "We just had a sign above our space saying our restaurant would be opening January 9, at 11 a.m." Apparently, a sign is all it took. Within an hour, the restaurant–which has a takeout counter and an informal dining area upstairs–was packed with people.

The original plan was to open only for lunch, but demand pushed their doors open nearly 24 hours a day, seven days a week. "We're located in a high-tech business area," says Jandl. "During the day, our clients are [corporate] people, and in the evenings we get couples and families." According to Jandl, local Hispanics love the food and say it's the only authentic Mexican food they've found in the area. In fact, Boca Grande received *Boston Magazine*'s "Best of Boston–Takeout Food" award for 1990.

Not surprisingly, sales are much better than the trio anticipated. "We've done very well," boasts Jandl. "Sales this year have more than doubled over last year's, and for 1991, we hope to double them again." But the restaurant's ambitious owners aren't complaining; as a matter of fact, they plan to open two more Boca Grande restaurants in the near future. "We're having a real good time doing this," says Jandl. "Running a restaurant is hard work, but it's rewarding hard work."

Coming to America

You've heard of Crown Books and B. Dalton, but does Dolgich Book Store ring any bells? If not, it's probably because most of the books are in Russian.

But in case you haven't noticed, the Soviet Union is hot right now. From the country's famous architecture to the world's busiest McDonald's, the Soviet Union is definitely a tourist spot for the '90s. And a small Russian book store in Chicago, Dolgich Book Store, is basking in the popularity.

There, behind stacks of famous Russian novels and gift items, you'll find 45-year-old Russian native Svedlana Dolgich, who opened Dolgich Bookstore 16 years ago. "When I came to the United States in 1973, I didn't have a job," Dolgich says with a noticeable Russian accent, "so I tried to open something that was easy for me."

Running a business may not be as easy as Dolgich envisioned, but she has definitely found her niche. She loved Russian literature and couldn't read English well at the time, so a Russian bookstore was a natural for her.

Dolgich soon found that every bit of experience and business knowledge helps, especially if you're in a foreign country. In the Soviet Union, she was an economist–handling a combination of sales and bookkeeping functions–for a wholesale food and storage company. "I had some [business] experience," says Dolgich, "but running a bookstore is quite different."

What makes a Russian bookstore in the United States so different is not only its subject, but also its location: the Northwest side of Chicago. Although Chicago is known to be a melting pot of many ethnicities, mainly German, Irish, Polish and Italian, Soviets are certainly a minority. But despite the sparse Soviet population, Dolgich's bookstore has done more than survive–it continues to grow. "This is a special store," boasts Dolgich. "Many people interested in Russian literature come to my store, mostly students studying Russian or people who simply enjoy reading Russian."

The store's inventory attracts locals and tourists alike. Although Dolgich caters mostly to those interested in Russian dictionaries or art, history, grammar and literature, she also sells imported Russian music, foods jewelry boxes, wood carvings, costumes, linens and the famous Russian fur hats. Dolgich's store carries handmade and hand-painted papier mache Russian locker boxes, which look like jewelry boxes but are often used for decoration. Selling items ranging from $2 to more than $100, the store offers something for everyone.

For this entrepreneur, owning a bookstore that celebrates her heritage is an American dream come true. "I am able to read everything that I want to–newspapers, magazines and books–every day," says Dolgich. "I love it!"

"STRATEGIES FOR BUSINESS EXPANSION"

Cook, W.M. (1991, May). Entrepreneur. pp. 38-39.

"Customer Knows Best"

When Bonnie MacEachern of Arrow Messenger Service in Chicago wants to know how business is, she asks her customers, not her accountants. As Arrow's customer service manager, MacEachern spends much of her time asking customers one simple question: "How are we doing?"

"It has proved to be the most effective way for us to find out what our customers want," MacEachern says. "And that's our job."

Many customer service experts agree that talking with your customers is not only good customer service, it's tantamount to success in today's competitive business world.

"For most businesses, customer service is the only way left to differentiate themselves from the competition," says William Davidow, coauthor of *Total Customer Service* (Harper & Row) and general partner of Mohr, Davidow Ventures, a venture capital firm in Menlo Park, California. "[Customers know] it's not smart to buy based only on price anymore. They're starting to rely on a company's reputation for service."

In addition, Davidow says businesses must realize consumers are becoming more quality-conscious, and that service is market-related. "Businesspeople must understand what level of service they should apply to a particular market," he says. For example, a four-star restaurant and McDonald's both give excellent service, but at different levels.

Timothy McCarthy, president of Contract Marketing, a Willoughby, Ohio-based marketing consulting firm says you can analyze several issues in determining consumers' expected level of service.

- ***Speed.*** Do your customers want to be served quickly, or do they expect more individual attention?
- ***Location/convenience.*** Should your business be in an accessible location? Should it be on the way home from work for consumers?
- ***Lifestyle/convenience.*** What service trends are evident in your industry? For example, restaurants providing only takeout service will suffer if consumers expect delivery.

McCarthy says determining the level of service consumers want is simple: "Ask them."

At Arrow Messenger, this means sending questionnaires to customers twice a year, in addition to regular phone calls and visits from MacEachern, sales representatives and even the company's owner. Questions range from "Do you like our uniforms?" to "Are our couriers and operators polite?" Arrow is now customizing invoices for many of its accounts as a result of recent conversations with clients.

Federal Express representatives poll customers via telephone every business day. Customers are asked to apply a five-point scale of satisfaction to service issues from billing and courier performance to the condition of the package upon delivery. Says spokesman Armand Schneider, "Our goal is to achieve 100 percent customer satisfaction."

In Freeport, Maine, L.L. Bean has long set the standard for quality and customer service in the catalog business. The company has a 20-hour, toll-free telephone number just for customer service, in addition to its 'round-the-clock number for order placing. L.L. Bean also contacts customers regularly to measure their satisfaction and obtain feedback on products and services.

All this is more than just good customer service, says McCarthy–it represents a fundamental change in the way businesses market their goods and services. "This is what I call 'dialogue marketing,' as opposed to 'monologue marketing,'" says

Reprinted with permission from Entrepreneur Magazine, July 1991.

McCarthy. "Today, you have toll-free numbers on invoices, and businesses calling clients on a regular basis–all to initiate a dialogue."

The goal, he explains, is to get repeat business. "Marketing used to be all in one direction. Now a business representative says, 'Come try my service. Talk to me about it, then come back to me.'"

See You Later

Although the term "dialogue marketing" may be new, some businesses have known the value of repeat business for many years. Catharine Hartnett, a spokeswoman for L.L. Bean, says the company's credo since it was established in 1912 is, "Sell good products at a reasonable profit, treat your customers like human beings, and they will always come back."

That sentiment is echoed by Gregory Passewitz, owner of Pineapples and Primitives, a homemade furniture company, and small-business specialist for Ohio State University in Columbus. "Good customer service equals customer satisfaction," says Passewitz, "which should equal repeat business, which then equals a successful business."

Passewitz says satisfied customers not only come back, they usually bring their friends with them. "Word-of-mouth advertising is so important, especially to a small business," he says. Conversely, he notes, negative word-of-mouth can be devastating. "Some recent surveys show that when people are upset [with a company], they tell nine or 10 people about it," he says. "When they're happy, they tell about five.

"Unfortunately," adds Passewitz, "when times are tough and you're surrounded by alligators, you sometimes forget the need for customer service." He recommends these steps to improve customer service:

- Acknowledge the customer's presence within 10 seconds. This can be done by making eye contact, or by answering the phone promptly when a customer calls.
- Remind your employees that businesses exist to serve customers. You can't teach an attitude, but you can promote a positive one.
- Remember what you are *really* selling. For example, a person selling steel-belted radials is not selling tires, but safety and performance.
- Teach your employees to *sincerely* listen to your customers, especially when they are voicing a complaint.
- Talk with your customers. If they aren't very talkative, initiate the dialogue yourself.
- Develop a way to measure customer service performance through surveys and focus groups.

Listen Up

Timothy McCarthy says the most tangible way to improve customer service is to demonstrate that you are listening to customers by letting them get involved. "Conduct a service audit among them," he says. "Ask them to be honest, then show them the results."

MacEachern agrees that such communication is vital, especially if a client has a problem. "Your customers must feel comfortable enough to call you about a problem," she says. "If they're not comfortable, they won't call–they'll just stop using your service."

Hartnett says a high comfort level among customers is precisely why L.L. Bean offers one of the industry's most ambitious money-back guarantees: Its customers can return anything at any time for any reason. "We would rather have a customer return something," Hartnett says, "than throw it in a closet and never buy anything from us again."

Women Who Have Changed the World

"THE PRACTICAL GENIUS OF PENNY CANDY"

Wilkinson, S. (1989, April). Working Woman. pp. 98-104.

1931 William Rubin, a manufacturer of paper boxes for the confectionery trade, begins investing quietly in The Sweets Company of America, makers of the Tootsie Roll. That year his wife gives birth to a daughter, Ellen.

1948 Rubin, by this time a member of the SCA board, is made president of the small candy company. Production surpasses prewar levels.

1950 Ellen Rubin, 18, meets and within months marries 30-year-old Melvin Gordon, a Boston textile-company executive. The new Mrs. Gordon, a sophomore majoring in math at Vassar, does her first job for her father's company: Debutante-cute, she poses for a *Life*-magazine ad.

1965 Seventeen years after starting Vassar, Ellen Gordon, now the mother of three daughters (with a fourth to be born in 1969), finishes Brandeis with a BA. (Later she'll pursue graduate studies in Indo-European linguistics at Harvard.) "I think there's something very special about a liberal-arts education, but if I had it to do over again, I guess I would go to business school. In my era, I'm not sure how many business schools were even open to women."

1968 Ellen Gordon joins the company that is now called Tootsie Roll Industries as a director; her assignment, running the company's pension fund and outside investments. "I can remember the days when I had to go in a back door to chair the board of directors' meeting because they weren't allowing women in the front door." In a prescient move, Gordon makes it her priority to lock in family control of the company by increasing their percentage of stock ownership.

1972 Tootsie Roll makes its first major acquisitions; the Mason Company, makers of Dots, and Bonomo, of Turkish Taffy fame. "Ellen's persistence in telephoning possible acquisitions was instrumental," her husband says today. "She's probably the most persistent person I've ever seen in business. She will go over, around, under or through a problem, but she won't stop until she has the answer.'

1978 Mrs. Gordon becomes president and CEO of Tootsie Roll.

1982 Ellen Gordon is one of the founding members of the Committee of 200, the elite organization of top-level women executives and entrepreneurs. "Most of us thought we were the only women in business. It was an emotional meeting, because we suddenly found counterparts, customers, buyers, women in different businesses."

1985 Tootsie Roll Industries acquires Cella's Confections, Inc., New York makers of chocolate-covered cherry candies, and Ellen Gordon becomes the 40th person–but the first woman–to win the Kettle Award, the confectionery industry's Oscar. "The Kettle confirms that a woman's place is still in the kitchen," she says in accepting it, "but it also confirms that her place is in the wrapping room."

1987 Gordon is elected president of the Committee of 200. Tootsie Roll's net sales top $114 million.

1988 The Tootsie Roll is 92 years old. Each day another 17 million come off the production line. Tootsie Roll Industries gets a lock on the lollipop market by buying the Charms Company for $65 million. "We want to make sure that Tootsie Roll remains a significant player in the candy industry," Ellen Gordon says to the *Wall Street Journal*.

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A Leader Who Proves That Consensus Building Creates Profits.

Ellen Gordon is the guardian of a small piece of American history. No, not a piece–a small roll of it: the Tootsie Roll. "Listen to this," she says as she pulls an obscure novel off a shelf in her Chicago office. 'He's writing about some flier shot down in World War II: 'Four Tootsie Roll segments, two Chuckles, one lemon: I immediately rewarded myself by eating one....I patted my knee, glad to feel the Tootsie Roll package that I had traded for one pack of cigarettes–a small price.'" Gordon plays the pilot with style and animation.

"I was reading a book of Ken Follett's one day on vacation and came across this· 'I've made a fortune–jewelry, china, antiques. All bought for cigarettes and soap. The Germans are starving. And best of all, the girls will do *anything* for a Tootsie Roll.'" Ellen Gordon's eyebrows arch with amusement, for she is the president and chief operating officer of Tootsie Roll Industries, Inc., the $160 million company that manufactures so powerful a product. And Ellen Gordon seems to be doing all the right things to assure that novelists of the 21st century occasionally will scatter through their pages billets of the chewy quasi-chocolate that children–and shot-down fliers–already have been munching for nearly a century.

Simple, wrapped penny candy was Tootsie Roll's first niche. The company's austere but busy Chicago factory–as well as a steadily increasing number of other facilities acquired under Ellen Gordon's stewardship–has since become a place to mint dollars by the millions. "Financially the company is incredible," says investment analyst Keven Maloney of Wright Investors' Service in Bridgeport, Connecticut.

Indeed it is. Tootsie Roll Industries numbers 96 on *Forbes* magazine's 1988 list of the 200 best small companies in the US (the rank is determined by each company's five-year average return on equity). Tootsie Roll ranks 33 out of the 200 in terms of grow sales ($115.7 million for fiscal '88, a figure that will rise to around $160 million in 1989 from the acquisition of the makers of Charms lollipops); numbers 47 in net profit ($15.73 million for the year); 42 in market value ($279.6 million); and a stunning 36th best of all 200 in earnings per share (1.71).

"They also have an incredible amount of cash," says Maloney. "They carry little long-term debt; they're underleveraged."

The Business of Profitable Niches

When they aren't reinvesting profits in their existing manufacturing facilities, Ellen Gordon and her husband sock them away until they have enough to make an outright acquisition. In 1972, four years after Ellen formally joined Tootsie Roll Industries, they bought Mason (Dots, Licorice Crows and other candies stocked largely by movie-house concessionaires) and Bonomo (Turkish Taffy, and doesn't that take you back?), both divisions of the Candy Corporation of America. In 1985 they swallowed Cella's Confections, Inc., a specialized maker of chocolate-covered cherries, and last summer spent $65 million to acquire Charms Company. This acquisition, coupled with the candy Kojak made famous–Tootsie Pops, the Telly Savalas toothpick–makes Tootsie Roll Industries by far the country's largest lollipop maker.

"[The Gordons are] pretty wise with their acquisitions," says Lisa Nelson, managing editor of *Prepared Foods* magazine. They're all unique products, and that's what they seem to look for–niche markets." Niche markets offer the safest profit possibilities in the relatively changeless, 300-company candy industry, which is controlled by two manufacturers–Hershey and M&M/Mars–that between them share 70 percent of the market.

"It's very tough to break into this market," says Richard O'Connell, president of the National Confectioners Association. "[The industry] averages about 150 new products a year, and not many of them succeed." Says analyst Keven Maloney, "If somebody does invent a successful new candy, one of the big guys will buy him." The key is either controlling more shelf space than your competitors or continuing to market a familiar product of unchallengeable uniqueness effectively.

Hershey Foods (which also manufactures and markets Cadbury's US brands) and Nestle Foods control virtually all the chocolate-bar display space in shops and supermarkets; M&M/Mars, with its M&M's Chocolate Candies, Snickers, Mars and other classic candy bars, owns most of the rest of the confectionery shelf. But just as the great

strength of Tootsie Rolls is that they stand entirely alone in their field–unlike chocolate bars, chewing gum, LifeSavers or a lot of other familiar favorites–so for the most part do their newly acquired products.

The Art (and Profit) of Empowerment

Ellen Gordon gets much of the credit for the company's growing success, though she and her husband work as a team. "The company is growing through acquisitions, but in a carefully planned way," says Pat Magee, the editor of *Candy Industry* magazine. "It buys companies that will fit well into their own philosophy of candy making, their own marketing methodology. They have high standards. But they do add snap and pizzazz to the companies they buy. One key thing is, they upgrade the packaging."

Magee is an acknowledged Ellen Gordon admirer as well. "She's a person I look up to. She's interested in passing on what she's learned, and she likes to help other women."

As a manager Gordon is particularly ready to use her employees' ideas and experience. "One of the things about managing," she explains, "is that you really don't know all the answers. You haven't worked at all the jobs. So you've really got to get your people to contribute. Maybe they don't know what to do with their knowledge; your job is to draw that out and be able to come to some conclusion. As a manager I prefer that there be leadership and some consensus, rather than just dictating from above."

Admittedly, Ellen and Melvin Gordon comfortably inherited control of The Sweets Company of America (SCA), as it used to be called, and its priceless Tootsie Roll trademark and formula from Ellen's parents. The family had started investing in the company in the early 1930s. Might life have been different for a woman with less of a head start? "People in family businesses always think about that a lot," Ellen Gordon admits. "But yes, I think with the energy I have, I would have been able to achieve elsewhere what I have here. In fact, last week I got a call from a headhunter with a *very* serious proposal I had to turn down," she says, laughing.

No doubt, Ellen Gordon was privileged growing up in the late 1940s as the private-school-educated daughter of a successful manufacturer. The evidence, however, is that she was also a spirited, worldly, unusual young woman who didn't accede to the conformity of marriage-bound girls in home ec, uniformed in bobby socks and penny loafers.

For one thing, she was a mathematics major at Vassar. "Unusual? Very. There were only a few math majors in the whole college," Ellen recalls. "But when I was very little and went to the office with my father, I always did two things: I made long chains of paper clips, and I added up the numbers in the telephone directory. I always wondered if I shouldn't be majoring in something like French literature or history. It was a little scary–especially to the boys."

Not to Melvin Gordon, an ex-Harvard halfback whom she met when she was still a Vassar sophomore. But then Mel was hardly a boy. "I thought he was kind of attractive, but a little bit ... *old*. So I asked him, and he said 29. I told him I was 19. When things began to get very serious I said, 'I feel terrible. I'm actually 18.' He said, "Well, that's all right. I'm really not 29, I'm 30.'"

Ellen Gordon married Melvin (one of the offices of his textile business was in Boston), transferred to Wellesley and rounded out her campus radicalism by becoming pregnant. "I remember one of the faculty members saying to me–I *love* her language–that it was 'unseemly for you to be in a family way' as a student. In 1950 you weren't supposed to go to college pregnant.

"So I left Wellesley and had four children. But after the third one was born I went back to school." Brandeis, in this case, where–it was now the early 1960s–Ellen enrolled as a middle-aged, full-time student-mother. "Crazy," she laughed. "We'd take my third daughter to nursery school, then I'd go to school, then I'd fetch her and take her back to class with me. She used to crayon a lot during class." Meanwhile, Melvin left the textile business and in 1962 became CEO of SCA.

Steward of the Family Business

By 1968 Ellen Gordon had put a Brandeis BA and Harvard graduate-school work in Indo-European linguistics behind her and joined Tootsie Roll as a director. She quickly became her husband's

financial and investment expert. "She had the foresight to help us increase the family's percentage [of stock ownership] in Tootsie Roll Industries so we wouldn't become a target," Melvin Gordon points out today. "We're very near to [owning] 50 percent of all the stock, and certainly a higher percentage of voting stock, because Ellen was primarily interested in making sure nobody wrested control of Tootsie Roll from the family. This was *years* ago, way before takeovers became common. It was back when people with 20, 25 percent of a company felt very secure. Ellen didn't."

"If they didn't have that large share of the stock, the company *probably* would have been taken over," insists analyst Keven Maloney. "Somebody like Hershey would have bought them, because the company is highly profitable. Over the last five years they've had an earnings-growth rate of about 27 percent. In comparison, the average Standard & Poor's 400 company is something like 12 percent, so they're more than twice as profitable as the typical industrialized firm."

Another of Ellen Gordon's major contributions to the company has been encouraging and participating in its increasing automation, including a $10 million modernization program in 1983 and a new computer system in 1988. "Looking at the [US] steel and automotive industries, we decided we must never be like that," she says. "We must be sure that we're state-of-the-art."

"[Candy is] a very capital-intensive product," O'Connell of the National Confectioners Association explains. "You need a tremendous amount of uniform product put out at high speed. You need a *lot* of machinery"–machinery to economically mix, convey, extrude, shape, wrap and package the company's products virtually automatically, leaving workers to monitor the systems rather than do handwork. (There are only about 600 employees–including manufacturing, support and clerical–in the entire 1.5 million-square-foot Chicago factory, 800 more throughout the corporation's other divisions in New York, New Jersey, Tennessee and Mexico City). Other machines test, quantify and safeguard the flow of candy–noisily flipping off the line any packet containing a contaminant such as a stray staple.

A 21st Century Factory

Steaming rivers of the brown confection–a gooey concoction nearly unchanged since it was invented by Austrian immigrant Leo Hirschfield in 1896–ooze along belts, down troughs and through extruders. Automated machines reduce the lava field of chocolate first to an endless monster bar, then to giganto candy as big around as Mike Tyson's thigh, and finally to a snake of warm, writhing, familiar-size sweetness. Other automatons then dice and wrap the individual candies in every permutation of Tootsieness.

"The Gordons constantly upgrade their factory," Keven Maloney explains, "and their capital expenditures are pretty much above those of other people in the candy industry. Their idea is always to achieve lower costs wherever possible, and they've been able to cut costs by increasingly relying upon automated equipment."

"You keep saying they're frugal," senior vice president David Liebowitz of American Securities Corporation responds, with annoyance, to a question. "I don't see it that way. That's *your* word, not mine. These are very sophisticated business people." Perhaps they're both. *Are* they frugal? I ask Pat Magee of *Candy Industry*. "They're frugal in the good sense," she says, "in that a lot of thought goes into every decision–in purchasing, management, employees."

A lot of that is the result of the amount of time Ellen and Melvin Gordon are together. Mel Gordon explains, "Not only in the office but while driving, in the airplane, at home.... We'll discuss everything in minute detail and argue all the points of view from every possible angle, much more so than I'd be able to with another male executive, in the office."

Doesn't it create problems, though–a hierarchy of husband-wife equals? "If we have a difference of opinion, our rule is that we try to lobby each other over to the other side. If we can't, we've made it a policy that we just won't do that thing, whatever it is, until and unless one of us can convince the other that we're right."

Melvin Gordon, 69, and at least a generation away from the revolution of which he's a part, can't avoid voicing a few classic sex-typed clichés when he waxes enthusiastic about his wife's talents. "We're stronger as a couple than we would be as two individuals, because a woman's intuition is very strong," he insists. He attributes some of her business success to her femininity. "There are certain roles where the opportunity seems greater for a woman to begin a business relationship. Dealing with a government regulatory body, say, or somebody antagonistic, my feeling is that a smart, clever woman with personality can make inroads faster. People don't seem to be as wary of a woman."

Ellen Gordon, however, looks forward to a different day. "I know there have been studies about nurturing, about the way men and women manage and whether there are gender differences that affect it," she muses. "But I hope the day comes when we think of management style being related to individuals, not to their gender." Certainly Ellen Gordon is an executive who has used her skills as a business person rather than relied on her role as "a woman president."

"When I graduated from high school I wrote a composition in place of final exams, that what I really wanted to be was a businesswoman," she says. "At the end I wrote, "Of course, this is just a joke. I'm going to get married and have children and be very happy to do that.' My headmaster and history teacher thought it was very amusing that I thought I'd ever be a businesswoman." The joke, it appears, is on them.

"A TALE OF EVOLUTION"

Kotite, E. (1991, March). Entrepreneur. pp. 126-130.

"Exploring the Four Phases of Entrepreneurship"

If you take away all the intricate layers of running a business, four stages would remain. The first state of entrepreneurship is, of course, the start-up phase. Putting ideas into practice. Opening those doors to the public. Working and reworking operations. Doing the job of 10 employees because you can't afford to hire anyone. That pretty well describes Keith Holland and Louis Garcia, who started K&L Seafood last year in Lancaster, Pennsylvania. Their first year has been one of patience and pluck.

At some point, whether it's six months of six years later, the expansion phase of entrepreneurship kicks in. Orders are up, and you finally convince the local bank your business is going to stay around longer than the fall foliage. Adjusting to the increasing demands of a growing company has been the primary issue of 1991 for Roger Teigen, owner of OK-1 Manufacturing Inc. in Altus, Oklahoma.

Selling the business you've carved out of nothing is sometimes the third phase of entrepreneurship. After eight years of running a fireplace mantel manufacturing company Brad Crawford was ready to move on.

But the good news is that after selling a business, many entrepreneurs jump right back in to the fourth phase: starting over. Take Mike Reed, for instance, who sold his share of a paper wholesale company and started another business in a new city. While these phases aren't always the "milestones of success" glamorized in fables about the entrepreneur's life, they form the real backbone of business.

PHASE ONE: START UP

It's 5:30 p.m., and downtown Lancaster, Pennsylvania, is bustling with activity. Getting off the bus, locals stop by K&L Seafood for some fresh red snapper or mussels on their way home from work.

"Most shops close at 4:30," says owner Keith Holland. "We know our customers don't get off work that early. and they like to buy fish from day to day."

Holland obviously knows his customers well. In addition to conducting an extensive marketing survey on the Lancaster market before opening last year, Holland personally waits on customers from 9:30 a.m. until 1:30 p.m. (partner Louis Garcia takes over between 1:30 p.m. and 7 p.m.). Two other part-time employees complete K&L Seafood's staff. Holland also drives 75 miles to Philadelphia every Wednesday at 4 a.m. to buy fish.

With all this responsibility, why does Holland still insist on holding a full-time job with a pharmaceutical company? "No one will give us financing," he explains matter-of-factly. "We want enough operating capital to run the business without living from paycheck to paycheck, but the banks are leery of lending to us because our business is less than a year old."

Philadelphia fish vendors also insist on c.o.d. (no pun intended) until Holland does business with them for a full year. In spite of the frustration of building a new company, Holland is proud to say he and Garcia own absolutely everything in the business, from the antique walk-in freezer displayed in front to the real freezers in back.

Without a lot of capital to invest in a storefront, Holland chose an abandoned building that was once, among other things, a Spanish grocery store and a chicken slaughterhouse. The owner was more than happy to rent the space to Holland at a low rate in exchange for renovations. "We spent almost four months gutting the place and putting in new floors, plumbing and electricity," recalls Holland. "Then we waterblasted the paint off the storefront to uncover the bricks."

Reprinted with permission from Entrepreneur Magazine, March 1991.

The result of their hard labor is a cozy 400-square-foot shop nestled in an eclectic neighborhood of restaurants, apartments, schools and markets.

Holland tries to keep prices down for his working-class customers while maintaining a good variety of quality fish.

This year, Holland hopes to double his volume to produce sales of $50,000 to $60,000. He is also enthusiastic about his new delivery service and his idea for offering a takeout service. "My plan is to take excess fish we don't sell and bring it to a little shop, cook it, and sell it as takeout dishes," Holland says. "It could be very lucrative."

Meanwhile, as their first year of business draws to a close, Holland remains optimistic. "Everything we've made, we've put back into the business. It would be nice if there was a godfather around to say, 'Here, it's all yours,' but we're toughing it out on our own."

PHASE TWO: EXPANSION

Walk into any fitness center in America, and you can't miss him: the bodybuilder wearing a wide leather contraption around his waist. Chances are, this special belt, designed to protect weight lifters from back and muscle injuries, is made by a growing company in Altus, Oklahoma.

OK-1 Manufacturing Inc., the parent company of Altus Athletic Manufacturing and OK-1 Safety, has been around for about 17 years. But until recently, the manufacturing and marketing company sold their sporting goods line exclusively to local mom and pop stores. "My family and I made an adequate living," says company owner and president Roger Teigen, "but the business was very small."

Teigen might have continued to think small if a few crucial events hadn't happened. The first occurred at the local Air Force base in 1974. "They wanted a dozen leather belts for their gym, and we said we could get some," he says. "Another customer wanted the same thing. But when we looked for suppliers, the only belt we could find was a discarded sample."

By this time, Teigen could see the great sales potential of leather weight-lifting belts, but he couldn't find a supplier, and his company wasn't equipped to produce the belts. So Teigen approached a friend who owned a small leather-working shop. His friend copied Teigen's sample and quickly made 24 belts. After the two of them displayed their belts as a trade show in Kansas City, Missouri, the orders immediately started pouring in. From first-year sales of $36,000, OK-1 Manufacturing is now a $10 million enterprise, and manufactures not only weightlifting belts, but also a line of back support belts for industrial workers.

Last October, Teigen and his staff came out with a patented belt design, requiring more labor-intensive work and "a lot of sewing machines!" Teigen says. "Our operations were in two buildings—one was 15,000 square feet; the other 6,000 square feet. We were ready for a big expansion." The company moved its operations into a 35,000-square-foot facility, and the staff grew almost overnight from 50 employees to more than 120.

The quick growth has been both rewarding and frustrating for Teigen. One of the problems of growth, he's discovered, is hiring experienced, quality workers. "It's hard to find skilled people," he admits. "We spend so much time looking for experienced machine operators," Out of sheer desperation, the company has started its own training center to teach employees to run the machines.

Much time is spent looking for a top-notch management team, too. Teigen personally calls on local universities and talks to recent business graduates about the great opportunities within his expanding company.

Sometimes a little perseverance goes a long way, especially with vendors who were skeptical about the value of doing business with a small-town company like Altus Athletic Manufacturing. "We just kept telling them how significant a customer we'd be in a few years, if they'd just try to hang in there," says Teigen.

They did. And so far, they have no regrets.

PHASE THREE: SELLING

Eight years ago, Brad Crawford took the money he'd been saving for several years and bought equipment to start Mantel Magic, his own woodworking shop. His object was simple: "I wanted to be the biggest [fireplace] mantel designer, producer, marketer, and seller in the entire country!"

Custom fireplace mantels, ranging from simple wood beams to ornately carved French pieces, became a lucrative business for Crawford. With 10 employees, he turned out as many as 150 mantels a month; sales reached $600,000 by 1990.

Things were going smoothly, but Crawford wasn't happy. "The business didn't feel like mine anymore," he explains. "We were making great money, but I was still putting in 15 hours a day, and I didn't have the control I once had." He found himself spending more time checking the equipment and doing paperwork than actually working with wood.

Business brokers left their cards in case Crawford ever wanted to sell, but he always threw the cards away. Then in May 1990, he got involved with a company called NuSkin International, which he describes as an "exciting opportunity," and abruptly decided it was time to move on.

Crawford called a brokerage and, although initially taken aback at the cost, ended up impressed with the amount of work and organization they put into the transaction. "They did a business evaluation, came up with a price, prepared a portfolio and then spread the word nationally through their network," Crawford says.

In October, 1990, just a few weeks later, three local businessmen purchased Mantel Magic. At first, because the sale went so quickly, the buyers had some misconceptions about the figures presented by the brokers. But eventually, all was worked out to everyone's satisfaction, and Crawford was free.

Seller's remorse? Not at all, he says. As a NuSkin distributor, Crawford works with his wife Lisa and enjoys the freedom of an office at home ... and an occasional fire capped by a beautiful hand-carved mantel.

PHASE FOUR: STARTING AGAIN

Mike Reed single-handedly proves you can take the man out of the business, but you can't take the business out of the man.

The story of Reed's progression from operating Reed Paper Co. Inc., a wholesale paper business in Lewiston, Maine, to selling it and starting over again in Scottsdale, Arizona, is that of an entrepreneur who knows exactly what he wants–and what he doesn't want.

It all started in 1972, when Reed's brother-in-law told him there weren't any significant paper suppliers in the Lewiston area. Reed and a partner pooled their money and started selling institutional paper products such as napkins, toilet paper and paper towels. In no time, the partners were ... well, on a roll. "By offering disposable and necessary paper products, building repeat customer business wasn't ever a problem," Reed says. First-year sales were an impressive $250,000, and by 1987, the company's sales topped the $15 million mark.

Yet Reed wasn't entirely content with the business's growth. For one thing, the company became bigger than Reed had originally projected. He hadn't done a business plan to control growth. "We expanded our territories and added to our product line according to customer demand," Reed recalls. He noticed that despite substantial sales growth each year, profits hadn't increased since 1981–overhead and larger sales staffs were the culprits.

Time for a change, he decided. And Arizona, with its dry climate, seemed just the ticket after years of cold Maine winters. Reed offered his share of the business to his partner in 1987, while retaining ownership of a division of the company called Brown and White Paper Co. After a "long, involved process," the deer was finally done in October 1987. Reed didn't leave right away–he had the option to stay in Bangor, Maine, to run the Brown and White Paper Co. But another visit to Scottsdale convinced him to make the move.

One year later, Reed was pushing paper again. He relocated to Arizona, bought a paper and party

goods store, transformed it into a discount retail/ wholesale outlet, and changed its name to Reed Paper and Party Outlet. "It was the first time the Phoenix area had every seen discount pricing for paper and party goods," Reed says. "We've increased sales by 35 percent in just one year." And in December 1990, Reed started another wholesale paper business in Phoenix, once again called Reed Paper Co.

Things have gone well with the new ventures, thanks to Reed's 18 years of experience. But will the cycle of selling and starting again continue? Reed doesn't think so. "This is it," he says. "After 10 or 15 years, I'll be ready to retire."

"OVER THERE"

Brown, P.B. (1990, April). Inc. pp. 105-106.

Santa Fe lives up to billing.

The sky is clear, the natives friendly, and the town gorgeous. Everything–including the Woolworth's in the heart of the city–is done in pinks and flesh tones with contrasting dark blue or brown trim.

No, there's no doubt that Santa Fe is a wonderful place to be–unless, of course, you're trying to sell a mass-market product. The problem is, there's no mass to market to. The town–including all the writers, artists, and leftover flower children who call it home–has only 55,980 people. And with a population of some 1.5 million, New Mexico ranks 37th nationally–great if you like open spaces; awful if you're trying to sell all-natural juices and sodas, as Richard Becker is.

Becker, 36, is president of Blue Sky Natural Beverage Co. The $1.8-million company was started by his brother-in-law, Robert Black–a former California meat processor who came to Santa Fe to study at one of the town's massage schools–and Becker's sister, Marla, a therapist, who is very fond of natural products.

Upon moving to Santa Fe in 1980, Marla was surprised to learn there was no fresh juice to be found anywhere in town. Could we, she suggested to Black, provide some?

And so Blue Sky was born. The juices were a hit, and the natural sodas, which were added later, fared even better.

But today–nine years after the Blacks began squeezing juice by hand and delivering it in ice-laden coolers–Blue Sky has captured just about all the sales there are to be had in "The Land of Enchantment."

The solution, of course, is to sell elsewhere. Obvious? Yes. Simple? No.

There's a reason words like "battle" and "war" are used to describe the $40-billion soda-pop industry. If you choose to enter the fray, you never know where the next shot will come from. Not only do you have the established armies of Coke and Pepsi doing everything in their power to fend off new combatants, but you also must worry about the retailers. Slotting fees–basically a charge for renting supermarket shelf space–have become commonplace.

It takes an awful lot of money to expand beyond your home base, and, says Becker, "we just don't have it."

But Becker, an attorney by training, has figured out a solution. He's bypassing all the problems that an aggressive U.S. expansion would cause by going overseas – specifically to Japan. Starting from a tiny base, foreign sales are up twentyfold in three years, and, says Becker, "I can see this being a very significant, if not the most significant, part of our business in the future."

It's an interesting marketing strategy. Most people see exporting as a way to increase volume. And Blue Sky does, too. Last year shipments to Japan accounted for 10% of sales. But for Blue Sky, going international is also a way to hedge its bets.

With more and more natural sodas, sparkling waters, and flavored waters–many of them produced by huge beverage companies–entering the U.S. market, Becker sees going international as a possible escape route. If things get too intense here, he can focus over there.

There are other benefits, too. Foreign sales generate good press. And there's the *Back to the Future* aspect of all this. While all-natural everything has become virtually passe here, it's still a relatively new idea in Japan.

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"In a funny way, selling overseas lets us turn back time," says Becker. "It's too late to apply what we've learned over the past 10 years to the market opportunities that were available in the United States in 1981. But it's not too late to do that in Japan. When it comes to no artificial anything, it's 1981 over there."

All this seems very well thought out–now. It wasn't in the beginning. In fact, Blue Sky had never given international sales a thought, until the state planted the idea.

HOW TO MARKET OVER THERE

It's far away and they talk different. Still they may love your product.

As Blue Sky's experience shows, you don't need in-depth market research, armies of consultants, or even a valid passport to start doing business overseas.

But you do need to keep the following in mind:

Why start from scratch? While you can spend a lot of time setting up an elaborate international operation, why would you want to? Market research? Odds are your state Department of Trade has what you need (see "INC.'s Guide to 'Smart' Government Money," August 1989). Distribution: It's already in place over there. A sales staff? You can tap into existing networks. The trick is to leverage other people's time.

The natives know. If you're going to tap into that expertise, it's silly for you to dictate marketing strategy. Let your distributors cherry-pick your line and design local advertising.

Patience. While you can make a decision in 20 seconds, cultural differences may mean the people you're working with do everything by consensus. Don't blow it all by trying to force a decision.

Protect yourself. Is your product patented? Your trademark protected? Have your suppliers signed noncomplete clauses? (For more ways of protecting yourself, see International Sales, "Too Close for Comfort," January 1990.)

Every other year, the Western U.S. Agricultural Trade Association takes a booth at the Anuga Trade Show in Cologne. The man on the other end of the phone back in early 1985 was wondering if Blue Sky would object if the New Mexico Department of Agriculture delegation took a couple of six-packs with it to the upcoming show?

Well, no, came the response. Let us know what they think.

"They like it," state rep reported back, "especially the Japanese. Why don't you think about attending Foodex, the huge food trade show later this year in Japan? We'll give you space in our booth."

Becker went, poured what seemed like thousands of gallons of samples, and came back with a connection that led to an order for 1,000 cases. That was no big deal. Still, it was fun to tell people you were selling overseas. Says Becker, "We thought of it as a hobby."

When sales passed 5,000 cases–or about 3% of total revenues–two years later, Becker started reevaluating that hobby. All of a sudden, he had a reason to.

For one thing, Blue Sky had come close to saturating the New Mexico market. And despite the company's attempts at national distribution, in-state sales still accounted for more than 40% of revenues.

And for another, it seemed that each day another large beverage company announced it was entering Becker's niche. Seagram now owns Soho Natural Soda. Pepsi-Cola is rolling out $H_2Oh!$ and Stroh produces Sundance sparklers. There's only limited space in the beverage aisle–especially if you can't afford to pay slotting fees. Could international sales, Becker wondered, become a serious business?

He vowed to find out. With help from the state, talking to other small companies that have done business overseas, and calling everyone he could possibly think of, Becker eventually hooked up with Tom Nakajima, the man who helped Seven-Up set up its distribution in Japan. The two met and agreed to work together at the 1989 Foodex show, where Becker would go to see it there was any serious interest in Blue Sky. (The distributor the company had been using couldn't handle any more volume.)

After lots of meetings, and lots of false leads, Becker finally met representatives from Cheerio Kansai, an Osaka-based manufacturer and distributor of soft drinks looking to import American products. What followed was a meeting and a series of faxes, once Becker returned home. The result? Blue Sky and Cheerio last year signed an 18-month test-marketing agreement.

At first blush it looks like Becker gave away the store. He's selling Cheerio his soda at a substantial discount, about a third less than he gets in the States, and he's letting Cheerio direct the Japanese marketing campaign.

But look deeper, Becker says.

First off, the price break is exactly what he gives domestic distributors when he really wants them to promote the product. And besides, he adds, Cheerio's first order of 20,000 cases–which equals 8% of Blue Sky's total soda sales last year–more than justifies the lower price.

As for cheerio directing the marketing decisions: "We each have a vested interest in wanting to make this deal succeed," Becker says. "We have to trust they'll do a good job."

That can require a lot of faith. For example, consider Blue Sky's ads. In the United States, they're pretty basic. The New Mexico desert is in the background, with lots of condensation-covered cans out front. Occasionally the spots will feature a teenage boy's fantasy version of a cowgirl–halter top and string tie–staring longingly at the can. The whole thing is done in pastels and the copy stresses "all natural soda, no preservatives, nothing artificial." The tag line: "Blue Sky: The new taste of the old west."

While it's not ground breaking, at least you know what it's supposed to be: an ad for soda pop.

With the Japanese version, you're not so sure. The ad has a blood-red background with two cans of Blue Sky–and just about all the copy–shoved into the lower-left-hand corner. It reads: "We are drinking it again in Japan. Direct from Santa Fe's clear blue sky to the Japanese throat. Natural soda, Blue Sky, new introduction. No additives, no artificial color, no caffeine that your mom recommends (against).

Not exactly "the heartbeat of America."

Cheerio has made other changes too. For one thing, it's had Becker redesign his cans–the background blues have become less metallic, the contrasting colors brighter. And Cheerio has decided to carry only two of Blue Sky's six flavors (mandarin lime and lemon lime). The distributor says the others, such as root beer and cherry-vanilla cream, are too bizarre for Japanese taste buds.

The fact that Cheerio can pick and choose what it wants to carry, and run ads that Becker doesn't understand, shows again Blue Sky's lack of control over the situation. Becker, however, prefers to look upon that as a blessing.

"We don't have the resources to set up an office over there, even if we wanted to. But with the exception of Nakajima's involvement, we spend very little time on this. We're getting all these additional sales, and it's a wonderful way to get our food in the door."

"WHO WILL BUY? PROBING THE MAIL EGO"

Kotite, E. (1991, February). Entrepreneur. pp. 92-98.

Americans refuse to be categorized. This is bad news for people trying to target their products to the most promising consumer, but good news for those making a living trying to categorize them anyway.

And yet, while there is no such thing as a typical American consumer, a variety of similar lifestyles, age groups, and buying patterns does exist. Studying these groups and patterns helps business owners know what products to sell, and where and how to sell them.

Despite extensive market research, customer surveys and demographic projections, the mail order customer remains somewhat of a mystery. Knowing they are out there–annual catalog sales are estimated at an incredible $25 billion to $35 billion in 1990, according to the Direct Marketing Association (DMA) in New York City–puts stars in the eyes of eager entrepreneurs who dream of the millions they'll make selling their product to this vast, unseen market. But the rising cost of mailing catalogs, not to mention the increasing complexity of updating and expanding mailing lists, has made it impossible to indiscriminately send thousands of mailers to the masses in hopes of a 2 percent response. Today's mail order entrepreneur must know the person most likely to open the mailbox, read the catalog and buy the product.

Who was it?

> Who are these faceless mail order mavens? Time-crunched, dual-income couples are still the hot ticket when it comes to purchasing from catalogs.

Once upon a time, it was easier. The birth of mail order occurred because it was the best way companies like Sears Roebuck and Montgomery Ward could reach the rural customer. "The typical customer in the late 19th century was the farmer or laborer, miles away from even the smallest store," says Mitchell Massey, chairman of the DMA's Catalog Council, and president and director of marketing for G.H. Bass in Falmouth, Maine. "They relied on catalogs for access to general merchandise."

The Burpee Seed Co. discovered a gold mine in catalog sales; farmers could order seed and get it delivered before planting time, thereby avoiding the arduous trip to the nearest dry goods store. Rural housewives had the variety of a department store brought to their households via catalogs featuring everything from cookware and children's clothing to furniture and linens. "The giants like Sears and Montgomery Ward catered to a lower- to middle-income, general merchandise consumer," says Katie Muldoon, president and CEO of HDM Muldoon, a direct marketing agency in New York City. "A lot of people fit that category in those days."

After World War II, the focus changed. Returning servicemen didn't necessarily return to the family farm. Rural communities were transformed into suburbs, and with paved roads and automobiles, main street shopping gave way to the mighty mall. A new era of megacorporations, world trade, and international manufacturing gave the American economy a diversity that would alter consumerism forever.

The "Big Book" mentality of mail order didn't wash with the consumer of the '60s and '70s. Specialty retailing started targeting shoppers with differing tastes and income levels. No longer isolated in rural areas, consumers could shop anywhere they chose, and were less apt to be satisfied with the "something for everyone" approach.

Another big change in the mail order market at this time was the emergence of the working woman. While dual-income households were still the exception rather than the rule, more women were getting college degrees and pursuing careers. Working

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women were on their way to becoming one of the hottest mail order consumer categories in history.

Two-Paycheck Bonanza

The year: 1991. The scene: a two-bedroom condominium in Nashville, Tennessee. The players: Denise and Tom Bryant, a couple in their early 30s. Denise, a flight attendant, is away from home three or four days a week. Tom, a high-school teacher, coaches football in the fall and baseball in the spring. Because their week is so hectic, the Bryants try to relax on weekends, visiting with family and friends, camping or just staying home to work on the house. They want to start a family in the next year or two.

Sound familiar? It should. Dual-income households are more common than ever, accounting for nearly 65 percent of all families headed by married couples, according to the Bureau of Labor Statistics. Their average earnings rose 4.5 percent in 1990, to $894 a week. In terms of sheer numbers and discretionary income, dual-income couples are decidedly mail order's most important customer.

"Today's 'typical' mail order customer is a complete turnaround from the early customers," says Massey. "They buy from catalogs not because they can't get to the stores, but because they don't have the time or inclination to shop." Working households have raised income levels and reduced leisure time. Couples would rather buy gardening tools from the *Smith & Hawken* catalog than spend a Saturday afternoon looking for parking and standing in line at the hardware store. And while they still appreciate good value for their money, the number-one consideration is more often convenience, service or flexibility.

When the Bryants have a baby, the amount they purchase from catalogs will probably increase. "We got out of children's wear in the '80s; now we're returning to it," says Mary Dale Walters, spokesperson for Spiegel Inc. in Oak Brook, Illinois. "Attitudes have changed–women are having children later, and fewer of them. They want their kids' clothes to look nice and be a good reflection on them."

Spiegel studies it customers not so much by demographics, but by "life stages." In other words, a 38-year-old woman customer could be single, married, with or without children, working or not working. Her purchase decisions change not by age, but by whatever stage she is passing through at the time. Age and income levels are still critical factors in studying consumer buying habits, but researchers now use psychographics (analyzing personal profiles and attitudes) for a more detailed picture of mail order's 'faceless' customers.

Single Serving

The year: 1991. The scene: a one-bedroom apartment in Dayton, Ohio. The player: Jim Hennessey, a 26-year-old mechanical engineer for an electronics firm. Marital status: single.

Single men and women do not make up the largest percentage of mail order customers–that's reserved for married couples–yet they form an important part of the mail order consumer profile. Because people are waiting longer to get married, single men and women in their late 20s, 30s, and even 40s have had a chance to establish good salaries, good jobs and a permanent address. "The single person right out of college generally isn't a good customer," says Muldoon. "They're too hard to find; they move around too much. You need a loyal customer who will continue to buy."

Hennessey, an avid backpacker, sent away for a catalog featuring outdoor gear and apparel. That company sold its mailing list to other mail order companies, and Hennessey started receiving catalogs containing menswear, records and tapes, gift items and gardening supplies. Now, he makes about one-third of his purchases through the mail. "Studies show shopping isn't the social activity it used to be," says Walters. Single professional men and women know what kind of apparel they need for work; if a catalog offers what they want, they buy it.

Spiegel discovered the power of the working woman, both single and married, more than 10 years ago. Faced with a dramatically dwindling middle-of-the-road customer base, Spiegel took a gamble and spent millions changing its image to an

upscale women's clothing catalog. "We changed our customer base totally," Walters says. "Working women are the ones who spend the money." The company convinced once-reluctant designers like Perry Ellis and Liz Clairborne to sell their clothing via the catalog, and discontinued everything except high-quality women's careerwear and sportswear. Once established in that market, they expanded into men's and children's clothing, home accessories, furniture and more.

Mary Roth, a single professional who lives near Chicago, buys most off her clothes from catalogs. A marketing analyst for Illinois Bell, Roth also attends classes two nights a week, runs a singles group, and is trying to plan her fall wedding. "I have maybe one or two free days during the week, and frankly, I don't want to spend them driving into Chicago to brave the crowds," she says. Roth is even considering ordering her wedding dress from a catalog.

While lack of free time is a primary motivator for catalog shoppers, selection and accessibility are also deciding factors, especially for customers like Paul Sweeney, a single 42-year-old freelance writer in Washington, D.C. For many years, Sweeney lived in Austin, Texas, where he wasn't able to get the "metropolitan" traditional-styled clothing he liked. Catalogs from Brooks Brothers, Banana Republic and L.L. Bean helped solve the problem. "My clothes were more distinctive, and didn't look as if they came off the same tired rack as everyone else's," says Sweeney, who also buys athletic apparel, greeting cards, and magazine subscriptions by mail.

Special Interests

The year: 1991. The scene: an elementary school classroom in Indianapolis. The players: Ellen Holz and Martin Lambert, second- and third-grade teachers. They are putting together a children's chemistry set they purchased from a mail order catalog targeted especially to elementary school teachers.

Just about every consumer fits into some special-interest group. Gardeners. Skiers. Brides-to-be. Even senior citizens and handicapped people are special-interest consumers in a way, since their wants and needs are very focused and specific. Though retailers who turn to specialty marketing may attract fewer customers, those customers are more consistent and loyal.

Larry Selman knows all about special-interest buyers. Selman, the owner of L.H. Selman Ltd. in Santa Cruz, California, sells paperweights by mail. But not just any paperweights. These are limited-edition and antique paperweights ranging from $50 to $20,000. Despite the hefty price tags, Selman insists his clientele is surprisingly broad. "Sure, we have a lot of serious art collectors," he says. "But there's also the average person who decides to live on hamburger casseroles for a while so he can afford the paperweight of his dreams."

Selman's mailing list of about 20,000 names includes international addresses, city dwellers from New York and San Francisco, rural dwellers from Hudson, Ohio, and many suburbanites in between. "We don't have one-time buyers," he adds. "Some of my customers have been buying from me since I mailed my first catalog in 1971."

Specialty consumers are often more receptive to catalog shopping because they have difficulty finding what they want in the stores. Massey cites as examples *Comfortably Yours* in Maywood, New Jersey, a catalog catering to the needs of elderly convalescents, and *Rue de France*, in Newport, Rhode Island, which sells nothing but French lace curtains to the home decorator with a yen for the European. All of these niche catalogs grab the attention of the person who is already predisposed to want their products.

Lisa Caugherty, a spokesperson for the DMA, points to her father, a 74-year-old retiree with a passion for classic movies. "He gets most of his collection through three mail order companies," she says. Another retired friend Caugherty knows has decorated three homes completely from mail order products.

Arts of Persuasion

But no matter what kind of consumer opens the mailbox and pulls out a catalog, there are a few things to remember. The first is that today's mail order shopper is more sophisticated than ever. "Most of us have been exposed to direct marketing in one way or another through our jobs," says Massey. People know how they get on mailing lists

and whom to call with complaints. They also expect liberal return policies, an 800 number for telephone orders, and the items they order to be in stock in the colors and sizes they need.

Today's catalog shopper is more likely to trust mail order, especially since more of his or her friends are buying through the mail. And shopping by mail no longer has a negative image; in fact, there is a certain prestige attached to the person who receives lots of glossy catalogs. "My catalogs are the first thing I read, before bills and even letters," claims Roth. She has even convinced her mother, long suspicious of 'scams by mail,' to order from catalogs.

And then there is the environmentally conscious consumer who sees every catalog as another tree killed needlessly, generating more paper and packaging materials to clog the landfills. "We're trying to change our packaging system for outgoing shipments by using recycled paper and less Styrofoam," says Muldoon. "And we honestly would rather not send catalogs to people who don't want them." The DMA, as well as many catalog companies, offers a service number consumers can contact to get their names off mailing lists.

The mail order consumer of the '90s, in short, has many different faces, lifestyles and buying patterns. Improved methods of selecting mailing-list prospects, as well as a more informed and sophisticated public, have given mail order companies a better chance to hit the customer they want. Yet while today's mail order shoppers are buying more, they are also demanding more, as competition for a piece of the consumer goods dollar rages on.

CASH IN ON YOUR BRIGHT IDEA

This is a success story. It's about people who start out with little more than a bright idea–a better design, a needed service, an unfilled niche in the marketplace– and manage to turn that idea into a money-making venture. Some, like Mel and Patricia Ziegler, a couple who started the Banana Republic chain of clothing stores, have succeeded beyond most people's wildest dreams. And their secret is really no secret at all: They are proof of Thomas Edison's familiar maxim that genius is one percent inspiration and 99 percent perspiration. The special *Changing Times* report covering the following pages tells you what you need to know to cash in on your own bright idea.

HOW TO FIND YOUR MARKET

YOUR CUSTOMERS ARE BUYING FROM SOMEONE ELSE NOW. SUCCESS MEANS LURING THEM AWAY.

You've come up with an idea you think is a surefire winner. Now, just as Rumpelstiltskin spun straw into gold, you want to convert your idea into profits. But there's no magic in the real world. Before letting exuberance and pride of creation run away with you, probably taking along some of your money, you need to look at your idea in the cold light of the business marketplace.

Whether your idea involves a new product or a service, it's the market that calls the shots. Relying on hunches and wishful thinking is an invitation to failure.

Everyone dreams of starting a company that skyrockets to national prominence. Banana Republic Travel & Safari Clothing Co. seems to fit the bill.

The company was started in 1978 by Mel and Patricia Ziegler, of San Francisco, with an idea and a $1,500 purchase of pounds of old Spanish para-trooper shirts. They managed to sell all of them in no time at a flea market. That success convinced them that there was a market for the kind of clothes they liked: classic, durable, comfortable. They gathered up surplus military garb from around the world and sold it at a store they opened in Mill Valley and through a catalog they created. Then they started manufacturing replicas of the originals.

Mel Ziegler says that he and Patricia worked so hard doing everything themselves–from buying merchandise and stapling catalogs to sweeping floors and driving trucks–that "the first four years seemed like one long day."

All that hard work paid off. In 1983 the Gap Stores bought the company for an undisclosed amount estimated by industry sources to be over $1 million. Ziegler says he and his wife maintain complete creative control of the Gap subsidiary They now run two dozen stores nationwide and expect to send ut 12 to 16 million catalogs this year.

Banana Republic's appeal is at least in part due to unique marketing. It lures customers with the romance of history and faraway places. The stores are outfitted like an African jungle lodge, a British officers' club or even a fantasy jungle world complete with a bush plane suspended from the ceiling. The catalog is replete with watercolor illustrations, wanderlust-inducing descriptions and clever "reviews" by literary notables.

Sarah Ashwick, Don Doty and Robert Whitaker, of Gaithersburg, MD, developed an idea for making videodiscs that profile colleges and universities. They figured they could make the discs available, with the necessary players, to high schools for use by college-bound students. The colleges would pay to be included in the package.

Before going after any colleges, the three spent months learning about the recruiting needs of

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colleges, finding high schools with a high proportion of college-bound students and talking to the students. Their research helped them put together a written marketing plan, a key part of any new business. Now, a year and a half after the first videodisc players were put in place, Info-Disc distributes profiles to almost 100 colleges to more than 450 high schools.

FIND YOUR MARKET

To develop a marketing plan for your idea, you need to identify not only your potential customers but also where your product or service fits in the market and devise an approach for selling to your target customers at a price that gives you a profit.

Much of market research revolves around answering basic questions concerning your customers and your competition. It's "almost a two-step process," explains Charlotte Taylor, president of CTA Management Group, a Washington, DC, developer of an entrepreneurial training system. The first step is determining whether the idea is commercially feasible: Who are your likely customers? Is the market in your area saturated? Is the competition too heavy? What makes you unique?

When you reach the second step, Taylor says, "you get down to the nitty-gritty: 'How will I package it, promote it and price it?'" The mix you come up with is your market strategy.

You can define your potential customers in terms of demographics, such as income, education, age and sex, or in terms of "needs," such as life-style or hobbies. What products and services do they need? How many will they buy at what price? Where and how often do they buy them? Why would they buy from me? As Victoria Fulford, a Washington, DC, marketing specialist, puts it: Your customers "are those people buying from your competitors, so you have to find a way to steal them."

When it comes to examining the competition, Francis Jabara, director of Wichita State University's Center for Entrepreneurship, points out that "everyone says there's no competition for this. Well, hogwash, there's competition for everything." You have to look for it.

You might find that your niche of the market lies in specializing in a certain aspect of a service. Brian Peskin, an MIT-trained electrical engineer, is doing just that. After a two-year search for the right venture, Peskin founded Ultra Wash, headquartered in Houston, to specialize in the unusual business of pressure-washing trucks.

Others were in the pressure-washing business, but, Peskin says, no one was specializing in trucks. He says that reliable equipment of his own design and his professional attitude have helped him develop a high-volume business that has attracted eight franchisees.

Sometimes defining your place in the market means setting limits, as Priscilla Levorsen, of Boulder, Colo., found out. While she and her husband were environmental studies students in college, they designed and sold a field notebook to other students. Essentially a cover for a three-ring binder, the notebook zips on three sides and has special compartments for such things as pens, a calculator, maps and loose-leaf paper.

In 1979 they formed Prisma Outdoor Products to see the notebooks and other items of their own design–tents, soft luggage, custom packs. They also opened a retail store. Then lat year, Priscilla, who now runs the business, realized they were trying to cover too many bases. She now concentrates on the field notebook, which she sells through catalog sales companies, outdoor equipment stores and college bookstores to field researchers, travelers, students and even screenwriters.

You may have to educate your customers, too, which takes time and money, as Mark Rovin discovered. Rovin and two associates formed Smoketight, in Lauderhill, Fla., to market Smoke Shelter, a smoke-inhalation protector. It is a pocket-size, semirigid nylon cover that unfolds to slip over a person's head and chest, trapping five to ten minutes of breathable air inside. Smoke Shelter was first marketed in April after almost a year of demonstrations and educational campaigns that were designed to prove its effectiveness to safety engineers, fire marshals, hotel operators and others. The company has now begun nationwide advertising.

Try to do as much of the research as you can yourself so you really understand all the aspects.

Don't overlook one of the most valuable sources of help: the entrepreneur who has a similar business with which you will not be in direct competition. Verne C. Harnish, founder of the Association of Collegiate Entrepreneurs, says, "We encourage people to go and solicit their help. That's the experience factor that you don't have that you need."

The Service Corps of Retired Executives, the Active Corps of Executives and Small Business Development Centers are sponsored by the Small Business Administration and offer free counseling to would-be business owners on business planning and small-business management and operations. To find the SBDC nearest you, write to the Office of Small Business Development Centers, Small Business Administration, Washington, DC 20416.

Contact the marketing or business departments of local colleges. You may be able to work with a marketing or business-planning class. Some professors will help design survey questionnaires and other aspects of market planning for a lower fee than outside marketing consultants.

Contact your State Data Center. Each center acts as a clearinghouse for census data on topics ranging from demographics to the kinds of businesses in the state and areas within it. For a free list of centers, write to Customer Services, Data User Services Div., Bureau of the Census, Washington, DC 20233. Also contact your state office of industrial or economic development to see what data it makes available.

Trade association market research is often available to the public. Look in the library for the *Encyclopedia of Associations* for relevant organizations. Also check the library for business directories, such as *Thomas Register of American Manufacturers*, and trade publications that may be helpful.

The following sources can also help you get off to the right start.

▸ *The Small Business Survival Guiae, Sources of Help for Entrepreneurs* (Prentice-Hall; $10.95 paperback) and *How To Start, Finance & Manage Your Own Small Business*, revised edition (Prentice-Hall; $9.95 paperback), both by Joseph R. Mancuso.

▸ *The Entrepreneurial Workbook, a Step-by-Step Guide to Starting and Operating Your Own Small Business*, by Charlotte Taylor (New American Library; $9.95 paperback).

▸ *Do-It-Yourself Marketing Research*, second edition, G. Breen and A. Blankenship (McGraw-Hill; $27.50).

▸ *Feasibility Checklist for Starting a Small Business* (Management Aid No. 2.026); *Learning About Your Market* (Management Aid No. 4.019); *Marketing Research Procedures* (Small Business Bibliography No. 9) and *Marketing for Small Business* (Small Business Bibliography No. 89), all available free from the Small Business Administration, P.O. Box 15434, Fort Worth, Tex. 76119. Also ask for publication 115A, *Free Management Assistance Publications*, and 115B, *For Sale Assistance Publications*, or call your local SBA office. You can also call the SBA Answer Desk, 800-827-5722.

▸ Many Bureau of the Census publications on market research are valuable. The Economic Censuses give detailed information about the retial, wholesale and selected services industries, including data on the number of businesses and employees, and payroll and sales nationwide and statewide. That information is sometimes included for counties, cities and central business districts (in large urban areas). *Current Population Reports* analyze population on the state level by such categories as family size, education and income. *County and City Data Book* offers a wide variety of census information on states, counties, cities and smaller places.

SELLING YOUR IDEA

You might be able to find a company to buy or license your idea and pay you royalties for its use, or even hire you as a consultant, but don't count on it.

Almost ten years ago, Paul Kostoff, formerly a retail florist in Dearborn, Mich., wanted to reach business travelers with his floral services. He developed a kiosk for airports where a customer can charge arrangements chosen from color photos by giving delivery information to special telephone operators.

He tried to convince two major floral wire services that the idea was a great way to tap a huge new market, but they didn't bite. He decided he would have to start his own company if his idea was ever to get off the ground. So far, his Floraline International has kiosks in about 27 airports in 16 states.

Although you consider your idea unique, a company's own research and development department may already have come up with it. To prevent lawsuits alleging misappropriation of an idea and breach of a confidential relationship, many major corporations have a policy of not looking at any ideas submitted to them by outsiders. "We don't like to have to send everything back, but we do," notes Edward Rivoir, executive vice-president of Selchow & Righter, a major game company. Sometimes small or medium-size companies are more receptive to outside ideas.

Most companies that will look at ideas from outsiders require disclosure agreements, according to William Weigl, chairman of the National Council of Patent Law Associations. Under such an agreement you declare that the company doesn't have to keep your idea confidential and that you will rely for your protection solely on any legal rights you might have, such as under a patent.

Just because you can't get in the front door doesn't mean you can't ever get in at all. Rivoir points out that you must be enterprising. He tells about one of his company's games, Ipswich, which was developed by a word-game fan. After unsuccessful attempts to sell the game, the inventor managed to get someone at a magazine highly respected in the toy and game industry to look at it. After that person's approval, Selchow & Righter ultimately bought it.

Another way of interesting a company is to have the product made and to market it yourself. If you show that people actually buy it, it might appeal to large companies. A well-known case: Selchow & Righter sought out and bought Trivial Pursuit, which had been rejected by several U.S. game companies before it started selling well in Canada.

GOING IT ALONE

If you decide to market your idea yourself, you can bet it will take all the time you're willing to put in. Les Wilder, of Fairfield, Conn., founded Sabon Industries so he could work for himself selling a product of his own design. Using his engineering background, he invented the Sabon Stand, an adjustable stand for portable computers that, he says, reduces eye and back strain.

He didn't think it would be easy, but he never expected to find himself working 16 to 18 hours a day, every day. In the beginning he was making the stands at night in his home workshop and trying to sell them all day. He says he spent months knocking on doors, writing letters and "not getting calls returned" before sales started picking up. "Your time is your own, but you have less time than ever," he says.

There are other ways to do it. Since you are calling the shots, you can set the limits. Maggie Greif, of Columbia, Md., runs her home-based research service, Sleuth, part-time. She searches for hard-to-find information, items and services for businesses and individuals.

Initially, she found clients by word of mouth. The ads, some in national newspapers, started bringing in clients from all over the country. Now she spends a good part of each day hunting for all manner of things. She has found everything from out-of-print cookbooks to sources of maintenance supplies for New York City skyscrapers.

Judy and Sheli Norris of Skokie, Ill., are convinced that the hours they spent at the planning stage are paying off for them. After a personal experience with a poorly run class reunion, they saw a need for a service to arrange every detail of class reunions from tracing classmates to hiring caterers and musicians.

Instinct told them it was a marketable idea. But before Class Reunion took on its first reunion in 1982, Judy Norris recalls, "We worked for months and months on a business plan. We talked to hundreds of people who had attended their class reunions, people who had not attended, photographers, caterers, party planners, everyone who had anything to do with the idea." They even read everything they could find on the psychology of those who do and don't attend their class reunions.

Their research allowed them to work out a concrete pricing formula that they still refer to for each reunion they handle. They say the planning

stage also helped them develop a philosophy about their business that makes them almost a member of each class. Business is booming.

GETTING A PRODUCT EVALUATED

Before you start researching the market for your bright idea, it might be wise to get a product evaluation. Among the reputable sources of technical product evaluation are some that are public or quasi-public and are free or charge a small fee, such as $50 to $100. These include universities, government agencies, inventors' organizations and corporations.

For example, the Wisconsin Innovation Service Center at the University of Wisconsin at Whitewater rates products on 33 different criteria, including five key indicators of viability: legality, safety, functional feasibility, production feasibility and investment cost. Scores are explained in a detailed report. The cost is $100.

If you get a low score, try another source before getting too discouraged. Product evaluation is not an exact science. You can use areas in which your product scores poorly as guidelines for correcting problems.

Evaluation sources sometimes specialize. The Center for Private Enterprise and Entrepreneurship at Baylor University in Waco, Tex., will not evaluate games. Others, such as Batelle Development Corp. in Columbus, Ohio, prefer to look at only potentially patentable inventions.

You will probably get no guarantees of confidentiality. That's why it is so important to keep proper records of your inventing process and have legal help in evaluating your protection needs. (See the following article protecting your invention.)

You can also get help from some private, for-profit organizations, such as invention brokers and consultants. Most reputable ones work solely on a contingent-fee basis: If your invention doesn't sell, they don't get paid. A patent attorney can probably give you the names of reputable companies.

Avoid any company that promises to sell or "develop" your invention for an advance fee, often a hefty one. Some companies have had action taken against them in various states for fraud. They often give free product analyses in which almost every invention gets glowing praise and then, after collecting their sizable fee, they do little to commercialize the invention.

Contact the Better Business Bureau, state and local consumer protection offices and your state attorney general's office to check out the reputation of any company you're considering. Consult your lawyer before signing a contract with an invention development firm.

For an excellent source of information on all stages of the invention process and where to get help, write to Small Business Administration, P.O. Box 15435, Fort Worth, Tex. 76119. Request the free Small Business Bibliography, No. 91, *Ideas Into Dollars*.

THREE WAYS TO PROTECT YOUR IDEA

Several forms of legal protection are available for your creations. Which you should use depends on what you have created.

Patents. A patent gives an inventor the right to prevent others from making, using or selling an invention in the U.S. and its territories and possessions for 17 years for a *utility* patent or 14 years for a *design* patent. Patents can be renewed only by special act of Congress. It currently takes about 25 months from the filing date of an application to the issuance of a patent.

A utility is the most difficult and expensive to get. A well-drafted one also gives the best protection It is available for such things as a new and useful process or method, machine or manufactured article. You won't get the patent if a patent examiner decides that your idea would be obvious to a person having ordinary skill in the technological area of your invention.

A design patent covers a new, original and ornamental design for the appearance of a manufactured item. The rules are basically the same as for utility patents, but design patents are generally easier and cheaper to get. They may not turn out to be of much value, however, because someone can easily make an item with a slight change from your design without infringing on your patent.

The basic filing fee for individuals and small businesses is $150 for a utility patent and $62.50 for a design patent. When the patent is issued, there are additional fees of $250 and $87.50 respectively. You must also pay periodic maintenance fees totaling $1,200 for utility patents. Fees will go up an estimated 11.7% in October.

Before you rush to apply for a patent, consider your reasons for doing so. Of course, you could simply apply for the thrill of having one. But Michael W. Blommer, executive director of the American Intellectual Property Law Association, says, "The sensible way to think of a patent is as a business tool." He maintains that the claims portion of your patent–the statements that set your invention apart from all others–should cover the invention's business use. If you can't be that specific, you are applying too soon.

If you do decide to apply, you can't wait too long, however. Someone else could be working on the same and might beat you to it. Or something else could happen that would cause you to lose your right to a patent. For example, you can't patent an invention that is described by anyone in a printed publication anywhere in the world more than one year before you apply.

Although you are permitted to prepare and file the application yourself, it's a better idea to hire a patent attorney or agent registered with the Patent and Trademark Office (PTO). (You can get a list for $9 from the Superintendent of Documents, Washington, DC 20402.) Preparing and following up on a patent application is a technical exercise. If there are errors in drafting the claims, which constitute the heart of a patent, your application may be denied or your patent may be of little value.

A search to check for conflicts with other patents can run $300 or more. Legal fees of $2,500 to $3,500 for obtaining a utility patent aren't unusual; fees for complex inventions can be even higher. Noted inventor Calvin D. McCracken suggests in *A Handbook for Inventors* (Scribner's; $17.95), that one way to reduce fees may be to draft the application yourself and have your lawyer refine it.

You can get a free half-hour consultation with a patent attorney in your area through the American Intellectual Property Law Association's Inventor Consultation Service. That should be enough time to discuss your invention and whether you should take steps to protect it. The application form is included in *How to Protect and Benefit From Your Ideas*, available for $9.95 from the AIPLA, Suite 203, 2001 Jefferson Davis Hw., Arlington, VA 22202.

There are things you can do to protect your idea even before you apply for a utility patent. Keep comprehensive daily work notes as you develop your idea and have them witnessed by at least one person you trust who understands the invention but who is not involved in the invention process. Also establish the date of your invention. The old trick of mailing yourself a registered letter describing your invention and keeping it unopened does

not help. The fact that it bears a postmark makes no difference. Instead, you should prepare an invention disclosure describing your invention and have it read and signed by two trustworthy outsiders who understand what you're doing. If necessary, their testimony can establish conception at least as early as the date they signed the disclosure. In addition, you can send a signed disclosure to the PTO under the Disclosure Document Program. The PTO preserves them for two years in secrecy. The program isn't a substitute for your own records or for filing a patent application. (Filing automatically establishes a date of invention.)

You don't have to wait for the issuance of the formal patent to begin marketing your invention. Once you've filed the application, you can put "patent pending" on your product. It doesn't give you any legal protection, but it is a strong deterrent to potential infringers.

For more information, get a free copy of Management Aid No. 6.005, *Introduction to Patents*, from the Small Business Administration, P.O. Box 15434, Fort Worth, Tex. 76119, or your local SBA office. *Questions and Answers About Patents* and information on the Disclosure Document Program are available free from the Commissioner of Patents and Trademarks, PTO, Washington, DC 20231.

Copyrights. A copyright protects original "writings" against unfair copying for the life of the author for plus 50 years. If two or more people collaborate, the copyright is good for 50 years after the death of the last survivor. If the work is done for hire or under a pseudonym, protection lasts 75 years from publication or 100 years from creation, whichever is shorter. Covered works include poems, books, articles, paintings, sculpture, musical compositions, lyrics, maps and pictorial designs, such as the printed material on board games. A copyright protects only the way an idea is expressed, not the idea itself.

Technically, copyright protection exists from the moment you create the material. When you distribute a work, place a notice on copies that includes the term "copyright" or an abbreviation, the name of the author and the year of publication: for example, "Copyright 1985 John Doe." Works can be registered with the Copyright Office for $10.

For more information, write to the Register of Copyrights, Library of Congress, Washington, DC 20559. Ask for Copyright Kit 118, available free.

Trademarks. Names, symbols, labels, slogans, devices (such as a soft-drink bottle) and other marks used to identify goods and distinguish them from those manufactured or sold by another can be registered trademarks. A service mark is the same thing for services. You gain federal trademark and service-mark rights only when the marks are actually used in the sale of goods and services in federally regulated commerce, such as interstate commerce.

It is a good idea to have a patent lawyer do a "clearance search" even before you begin to use a mark to be sure it isn't already in use. There's a filing fee of $175 for registration with the PTO. That protects your mark for 20 years, and you may renew every 20 years. For more information and registration forms, request a free copy of the booklet *Questions and Answers About Trademarks*, from the Commissioner of Patents and Trademarks, PTO, Washington, DC 20231.

HOW TO BANKROLL YOUR VENTURE

TO GET THE MONEY, YOU MAY HAVE TO GIVE UP A PIECE OF THE BUSINESS.

The proverbial better mousetrap will simply gather dust in the closet without the money necessary to turn it into the core of a successful business. Would-be entrepreneurs have to tap whatever sources they can to make their dream become reality. Most invest their own funds at the beginning, and some find they can operate and even grow without outside capital.

Ten years ago Carol and Richard Holley of Memphis, Tenn., used their savings to start Happi-Hands, a gift and craft shop specializing in personalized gifts. They were able to make the business pay for itself out of revenues. It wasn't until a few years ago that they took out their first bank loan–to finance the opening of their fourth and fifth specialty shops.

For many entrepreneurs, raising outside money is a necessity right from the start. When Alexa Betts wanted to launch Child's Play, a day-care center in the heart of the high-rent business district of Washington, DC, she applied for a $200,000 loan guaranteed by the Small Business Administration through a local bank. She got the loan, but it wasn't enough for the kind of center she had set her sights on. To make up the difference for the capital she lacked, she gave up part ownership of her company in exchange for $150,000 invested by a group of doctors.

DIFFERENT KINDS OF CAPITAL

There are different kinds of capital, with pure equity, or ownership, capital at one end of the spectrum and pure debt, or borrowed, capital at the other. In between are numerous hybrids with mixed equity and debt characteristics.

Loans have to be repaid, with interest, out of revenues, but lenders usually don't want an ownership interest. Equity capital does not have to be repaid, but equity investors are entitled to part ownership in the company and a share of future profits.

Regardless of the kind of capital you wind up with, taking funds from outsiders means you no longer run your company solely on your own. Borrowed funds will probably have strings attached. For example, banks generally limit long-term business start-up loans to 50% of the amount needed and require collateral and, probably, the personal guarantees of the owners or third parties who can make good on the loans if the owners can't.

When Jerry Pawlak and Joe Gilmore took over, in 1982, the failing Terrestris Greenhouses, located on a rooftop in Manhattan, the place was in such poor repair that "customers were falling through the floorboards," says Pawlak. As part of their plan to turn the business around, they needed a $100,000 loan for renovation. Pawlak remembers they were "always referred to the first assistant clerk to the vice-president's assistant, and he never returned our calls."

They finally did get their loan. However, Gilmore says, the bank didn't really go too far out on a limb. "Without our strong credit histories and personal assets for collateral we would never have gotten the loan."

With equity capital you take on responsibilities to outside investors. Management decisions have to be made with them in mind, and you must report to them regularly. Although it may seem hard to give up part of your brainchild, you could gain more than just money. Betts reports that the doctors who invested in her day-care center turned out to be the catalysts whose contacts made other things come together.

Detlef Adolff heads Supergrams, a Wood Dale, Ill., company that sells custom-made, foot-high banners for any occasion. he decided that selling shares in his company to family, friends and business associates not only was the best way to generate capital but it also created a pool of investors with an interest in the enterprise's future who would willingly supply helpful advice.

SO, WHERE'S THE MONEY?

Sources of start-up capital, other than yourself, friends and relatives, are listed on page 11.

Traditional sources of capital, such as banks, often shy away from small business start-ups because of the high-risk factors or because they do not find it economical to make loans or equity investments as small as those required by many small businesses. Venture capital firms are often uninterested in deals involving less than $500,000.

A SMALL NUMBER OF VENTURE CAPITALISTS NOW INVEST IN CONSUMER PRODUCTS AND SERVICES

The most likely places for you to look for money are informal sources (people who know you and "angels"), the SBA-guaranteed loan program, state business-development funds, and Small Business Investment Corporations (SBICs) and Minority Enterprise Small Business Investment Corporations (MESBICs), especially those with preferred loan limits of $250,000 or less.

You and your business idea may not be very attractive to banks and professional investors. As John D. Sanders, vice-president of Wachtel & Co., a Washington, DC investment banking firm specializing in funding smaller companies, points out, "We investors are investing in management. We're not investing in ideas. How do you separate one good idea from another? But I know how to separate a good management from bad management. I look at results." If there is no track record yet and "if I don't know the person or I don't really have the feel for what he's doing, then I have nothing to base my judgment on."

Even if your business starts out with only a little help from your friends, don't underestimate the importance of Aunt Suzies, Sanders's name for informal backers. "If, in fact, there's a group of people that will put money in because they trust that guy, it gives me that stamp of credibility I need as an outsider," he says. "I'm more willing to bring in certain amounts of outside capital."

You can sometimes bootstrap capital from informal sources into bank loans and other funds, especially if you have recruited a management or advisory team. Such specialists as a lawyer with experience in structuring small business deals, an accountant, a banker and, possibly, a successful business owner give depth and credibility to your venture, which is especially important if there is potential for rapid growth that might attract venture capital.

To some extent, your source of money depends on the kind of business you are starting and its potential as defined by the marketplace. For example, retail ventures are not popular with most venture capitalists, but high-technology companies are.

Small businesses fall into one of three categories, says William E. Wetzel Jr., professor of finance at the Whittemore School of Business and Economics at the University of New Hampshire. Most are what he calls life-style ventures, which basically are always going to be relatively small operations that usually do not have outside investors.

He calls the next category foundation firms. These have more potential for growth than life-style ventures but are usually not flashy enough to attract professional investors, such as venture capitalists. They may also have trouble borrowing the funds they need.

The last category, the high-potential ventures, includes the ones that most venture capitalists go after because they are likely public-offering or acquisition candidates.

High-technology companies are commonly among these hot prospects, but not all venture capitalist investors stick to high-tech companies. A small number have begun to specialize in investing in consumer products and services companies. Another group specializes in smaller start-ups. Zero Stage Capital of Cambridge, Mass., concentrates on pre-start-up financing in the range of $50,000 to $150,000 for high-technology companies within 60 to 90 miles of Boston. Other venture capital firms and SBICs and MESBICs also have favorite industries and, often, favorite regions.

HOW DO YOU GET IT?

In order to raise the money to get you going and keep you going over the roughest first few years, you have to dangle the most attractive lure possible. Before you approach anyone–a venture capital firm, a banker or even your mother–you have to do your homework. That means researching and writing a thorough business plan.

The business plan is "like a blueprint. It's a walk-through on paper of the idea," says Joseph Waldman, professor of business administration at the Indiana University School of Business. "In going through that exercise, particularly the financial statements if you do them honestly, you'll be testing the feasibility of the particular idea." It's an exercise you should go through even if you aren't looking for a penny of outside capital. (See page 12 for details of what a business plan should contain.) If you do it well, your plan can be your most valuable working tool, growing and changing with your business and helping you keep issues in perspective.

There are no shortcuts to a business plan. People, notes Waldman, "want a quick fix. They want you to tell them all about this business and get them rolling in one hour. If you're serious about it, you are going to have to invest some intellectual sweat equity." Preparing a plan might take you 300 hours, Waldman figures, and that doesn't include all the time you spend reading and learning all there is to know about your proposed business and its place in the market.

MAKING CONTACT

Once you've finished your plan, finding the right sources of money to approach often depends on developing the right connections. Making contracts is a valuable side benefit of your business plan research.

Referrals are the preferred means of contacting "angels" and venture capitalists. An introduction at the right time may do the trick, a key premise of a computerized introductory service, called Venture Capital Network, started by the Whittemore School's Wetzel to introduce entrepreneurs to potential investors throughout the country.

You have to be sure you show your plan to people who are interested in your kind of business. But you walk a fine line: Don't show it to too many people. Start with your best bets. Your research should highlight who they are.

Lawyers, bankers, accountants, suppliers and even other business owners may all have connections you can use to pinpoint the sources most likely to back you. Small business development centers, entrepreneurial management workshops at colleges and universities, as well as programs sponsored by the SBA can be useful in many stages of your planning.

Check with the local chamber of commerce, your banker or the business administration or entrepreneurial studies department of local colleges and universities to find out whether there is a venture capital club serving your area. All across the country these clubs are serving as meeting places for "angels" looking for investments and entrepreneurs eager to tell their story.

Another tap into the small business pipeline is through an "incubator." Incubators are complexes sponsored by a variety of institutions, including profit-making corporations, universities, nonprofit organizations and public bodies. Typical services offered by incubators include below-market-rate space on flexible terms and shared business services, such as secretarial and answering services. Sometimes, incubators serve as links to banks and other financial services and, in some cases, invest directly in small businesses through their own investment pools.

Try to stay flexible about the type of financial arrangement you will accept. You won't know in advance precisely whom you will attract; being too rigid might sour a deal. Although you may find it hard to accept, it's largely the investor's needs that fine-tune an arrangement.

Money is only one ingredient necessary to make a small business successful. You need a good idea to begin with, more hard work than you've ever imagined and even a little bit of luck. But without money a bright idea can fade and hard work can turn into hard luck, so finding money has to be high on your priority list.

FOR MORE INFORMATION

Here are some sources of information on financing and other aspects of starting a business that you will find helpful.

- *The ABC's of Borrowing* (Management Aid No. 1.001) and *A Venture Capital Primer for Small Business* (Management Aid No. 1.009), from the Small Business Administration, P.O. Box 15434, Fort Worth, Tex. 76119; free.

▸ *Financing Small Business and Steps to Starting A Business*, Small Business Reporter, Bank of America, Dept. 3120, P.O. Box 37000, San Francisco, Cal. 94137; $3 each.

▸ *Financing Your Business*, Price Waterhouse, 1801 K St., NW, Washington, DC 20006, or local offices; $5.

▸ *Up Front Financing*, by A. David Silver (Wiley; $20.95).

▸ *Venture* magazine, monthly, $3 per issue.

Some venture capital organizations:

▸ National Association of Small Business Investment Companies, 1156 Fifteen St., NW, Suite 1101, Washington, DC 20005. Free directory.

▸ National Venture Capital Association, 1655 N. Fort Myer Dr., Suite 700, Arlington, VA 22209. Free directory.

Western Association of Venture Capitalists, 3000 Sand Hill Rd., Bldg. 2, Suite 260, Menlo Park, Cal. 94025.

SOURCES OF START-UP CAPITAL

▸ ***Wealthy individuals.*** Go to these "angels" either directly or through a venture capital club or referrals from such contacts as bankers, lawyers or accountants. Potential investments may range from $10,000 to $100,000 or more for expected returns of three to five times the investment after a reasonably short term, say five years. Angels prefer common stock and secured loans, expect a substantial ownership stake in the company and like to keep tabs on their investment, perhaps as members of the board of directors.

▸ ***Venture capitalists.*** You can find these so-called institutional risk-takers through venture capital association directories, but they prefer referrals, such as those from CPAs, attorneys and bankers. They have formal criteria for evaluating a business, tend to specialize in certain types of businesses and prefer strong minority positions. They prefer companies that have a strong potential for going public or being acquired, and they typically look for an annualized rate of return on their investment of 40% to 60% for five to seven years. They often structure deals with both equity and debt characteristics.

▸ ***Small Business Administration.*** The SBA has a variety of loan programs for small businesses that cannot borrow from conventional lenders on reasonable terms.

Most SBA loans are made by private lenders and guaranteed by the SBA. Currently, the SBA will guarantee up to 90% of a loan, with a maximum guarantee of $500,000. Maximum allowable interest rates (2 1/4% to 2 3/4% above prime) are set by the SBA. Maturity can go to 25 years. A business owner must have been turned down for a conventional loan by a private lender (by two lenders in a city with more than 200,000 population) before becoming eligible for an SBA loan, which must be secured and requires personal guarantees.

The SBA makes a small number of direct loans up to $150,000 each. These generally have slightly lower interest rates than regular commercial loans. Call your local SBA office for information on loan programs.

▸ ***SBICs and MESBICs.*** Small Business Investment Companies and Minority Enterprise Small Business Investment Companies are privately owned and operated companies licensed by the SBA to provide equity capital and long-term loans, usually with equity features, to small firms. Investment amounts vary but may be from under $100,000 to over $1 million. They generally offer management assistance. Call your local SBA office for a list of SBICs and MESBICs.

▸ ***Commercial banks.*** Banks generally require security and guarantees before making start-up loans and sometimes impose other restrictions on the borrower. You can expect to pay the prime rate plus one to four points.

▸ ***Business Development Corporations.*** BDCs are privately owned corporations chartered by about half of the states to make loans to small businesses. They are flexible lenders and can often come up with a creative package that would be unavailable form more conventional sources. They can generally make loans guaranteed by the SBA.

▸ ***State venture capital funds.*** More than 20 states have programs providing venture capital funds for small businesses, particularly start-ups. Most make

loans, and some provide equity capital. Some programs concentrate on high-technology start-ups; others will fund any kind of business. Requirements and preferred investment size vary greatly from state to state. Contact your banker or your state or local economic or industrial development office to see whether your area has these or other capital funds programs for which you might be eligible.

▸ ***Shares you sell.*** To attract outside investors, it may be appropriate to sell shares in a private or even a public offering. Such offerings are very technical and require expert legal help to conform to the federal securities laws and state blue-sky laws.

YOUR BUSINESS PLAN: PUT IT IN WRITING

By the time you get serious enough about an idea to need a business plan, you will have already spent a lot of time thinking about it and doing a great deal of informal research. Now you have to refine all your vague guesses and suppositions.

There is no easy way to do it. You can't just fill in the blanks; each business plan has to be a custom job. Before you're done, you'll wind up talking to everyone you can find with expertise in your field, and you'll probably be good friends with your reference librarian.

As much as you can, do the research and writing yourself. That way you can make better use of it later. Also, potential investors can quickly spot plans done by outsiders or financial projections spewed out by someone else's canned computer program and may turn off to the deal from the start.

Your business plan should include a cover listing the name, address and phone number of the business, the name and position of the person to contact and the issue date of the plan.

If you are expecting to raise outside money, form is important because your plan creates the vital first impression of your company. The cover should be clear plastic or solid-color paper sturdy enough to take all the handling you hope it will receive.

The title page should repeat the cover information and add the notation "Copy Number ___" You shouldn't have too many copies in circulation at any one time—some experts say no more than 20, some say far fewer—because potential investors don't like to feel they're part of a crowd.

Executive summary. The next one to three pages, summarizing the entire plan, are the most important. They are written last, but this is the part an investor will probably read first. If your summary doesn't arouse interest, your chances of getting money are slim no matter what the rest of the plan says.

According to Joseph Mancuso, director of the Center for Entrepreneurial Management in New York and author of several books on writing business plans, potential investors spend an average of five minutes screening a plan. If you don't grab their interest from the beginning with the executive summary, your plan will probably disappear into the waste basket.

The executive summary should succinctly explain the company's current status, products or services and the benefits to the customer from them; the financial projections; the goals for the next three to seven years; the amount of money you need and for what; how much of the company is for "sale"; and the future benefits to investors. Highlight what makes your company special, such as a greater emphasis on customer service or higher quality than your competitors.

Table of contents. List each section and subsection of the plan, with page numbers for easy reference.

Description of the business. This section covers the history of the company, when it was founded, where and by whom. Mention the business's legal structure, such as corporation or partnership. Include a concise definition of the company's business and what makes it unique. Describe its products and/or services and price range. State the company's goals as specifically as possible, such as increasing sales to a stated level or opening future outlets on a timetable.

Products and/or services. Describe in detail each product or service the company offers and any unique features. Specify the cost and profit attached to each. Discuss the reliability of any sources of supplies. Forecast changes in your products or services and discuss opportunities to develop new ones. Some investors don't like to back one-idea companies.

Discuss any patents or other legal protection involved. Explain any relevant government regulations, such as zoning laws or licensing requirements.

Marketing analysis and strategy. You might want to make this section longer than the product section because the sizable return investors want depends more on the market than on the product. You'll really use your research here as you indicate the total number of potential customers in your target area, the share of the market you expect to capture and why.

You have to identify your target audience by the characteristics that play a role in their decision to buy from you, such as income, age or life-style. You also have to discuss trends in your market and industry and explain how your company reflects them and plans to deal with change. Time spent analyzing census and other statistical data and talking with insiders, such as suppliers and other entrepreneurs, will help you make informed projections.

Specify the attributes of your product or service that you plan to emphasize. Discuss how you arrived at your prices and how they compare with your competition. Explain how you will sell the product or service–with salespeople, retail outlets or telephone contacts? Discuss how you will advertise and where. Outline your policies on selling on credit, service, warranties and customer discounts. Analyze advantages and disadvantages of things like your location, sources of supply, and cost.

Competition. Identify your competitors and their share of the market as well as their strengths and weaknesses. Forecast what your competition may do to fight you and explain what your responses will be.

Management. To investors, this is one of the most important parts of your plan. They want to know who is involved. Describe the prior experience and background of each person and each one's responsibilities. Include an organizational chart. If skills are missing, indicate where and when you will get them.

Risks. Present your contingency plans if things don't go as expected. You might decide to keep this part of the plan for your own use rather than include it with the rest of the package.

Financial statements and projections. If you use an accountant for this part of the plan, he or she should do the projections with you, if possible, and not for you. You have to understand the numbers as well as do the rest of the plan.

You'll need profit-and-loss and cash-flow projections and a balance sheet showing total assets and liabilities for the next five years, plus a break-even analysis, which shows when total sales equal total costs.

Those educated guesses are important because they set a value on the company that forms the basis of how much of the company equity investors will receive for their money. The assumptions you state have to be reasoned and consistent with the market picture you painted in the other parts of the business plan and with those common in the industry you are entering.

Explain what you are going to do with the money you're seeking and indicate if you expect to need more in the future. Most importantly, always tell potential investors when they will get their return on investment and how much it will be. When you're finished, have someone whose judgment you trust, perhaps an entrepreneur who helped you, go over the plan.

All of that is a tall order for a document that shouldn't normally be much longer than 25 double-spaced pages (not including such supporting documents as your resume, personal financial statement and any contracts and leases you've signed). Here are some sources to guide you to a perfect fit:

Business Plan for Retailers (Management Aid No. 2.020) and *Business Plan for Small Service Firms* (Management Aid No. 2.022), available from Small Business Administration, P.O. Box 15434, Fort Worth, Tex. 76119. Free.

Business Plans that Win $$$, by Stanley Rich and David Gumpert (Harper & Row; $19.95).

How to Write a Winning Business Plan, by Joseph R. Mancuso (Prentice-Hall; $10.95 paperback).

Planning Your Business, Price Waterhouse, 1801 K St., NW, Washington, DC 20006 or local offices; $5.

CASE STUDY

Tomasz and Katarzyna have talked about starting a business for several years. They really don't have an idea, but they are convinced that they will have a business. They have considered building maintenance and interior design. Tomasz graduated from a technical college with a degree in interior and fashion design. Katarzyna did not go to school but worked at a building supply wholesaler for three years.

1. Can you help Tomasz and Katarzyna come up with a successful business?

2. What are their strong points for considering a type of business?

3. Discuss the business form that you would suggest for Tomasz and Katarzyna to use in their business.

4. What type of innovative business would you suggest using the building maintenances and interior design together?

CASE STUDY

You have been selected to be a part of a committee to improve the economy of your town. Most of the businesses are retail clothing and food stores. You live in an area where the weather is warm most of the year. There are a lot of older pensioners as well as large number of families with new babies.

1. Develop some business ideas that would help to improve the economy of the town.

2. What trends might affect the businesses in the town?

3. How could the environment be a part of the businesses to start?

4. Discuss some innovative ideas for businesses for this town.

LOCAL BUSINESS RESEARCH FOR BUSINESS OPPORTUNITIES

The purpose of this activity is to determine the types of businesses that already exist in your city or region. By working on this as a group project, usable information about the business type, size and number of businesses should be helpful as a marketing research project.

Divide the city into sections and each class participant will take a small section to research.

Each member of the class will complete the following questions that will be compiled by the coordinator. The collection of the business information will be shared with the group to develop a means of networking and evaluating competition.

1. Number of businesses in your section.

2. Businesses by type:
   (make a list of business types)

3. If known, include number of employees.

HUMAN RELATIONS IN BUSINESS

295

UNIT 6

Title: **HUMAN RELATIONS IN BUSINESS**

Purpose: This unit is designed to help the participant understand human relations and how it applies to business.

Objective: At the end of this unit the participant will:

- have an understanding of self-image and human relations.
- evaluate cooperative relations with other small business owners.
- be able to determine how human relation skills should be used in small business.
- discuss moral and ethical values based on American concepts.

Materials:

Transparency 6-1:	Human Relations
Transparency 6-2:	Human Relations Starts with Self-Understanding
Transparency 6-3:	How to Improve Relationships
Transparency 6-4:	Understanding Basic Employee Needs
Transparency 6-5:	Understanding Basic Customer Needs
Transparency 6-6:	Ten Commandments of Human Relations
Handout 6-1:	Rating Your Self-Image
Handout 6-2:	How Ethical Can I Afford to Be?
Handout 6-3:	Personal Ethics Exercise
Handout 6-4:	Personal Ethics and the Entrepreneur
Handout 6-5a:	Short Human Relation Case Studies Exercise
Handout 6-5b:	Short Human Relation Case Studies Exercise (continued)
Handout 6-6:	Personality Evaluations
Video Tape:	Business Etiquette (appropriate Business Behavior)

Product: Completion of Self-Image Understanding Exercise
Completion of the ethics exercise

Note to Instructor: None

Estimated time:

Overview and discussion of transparencies	approximately 10 minutes.
Completion and discussion of Self-Image Understanding Exercise	approximately 30 minutes.
Open discussion on ethics	approximately 20 minutes.
Completion and discussion of personal ethics exercise	approximately 30 minutes.

UNIT 6

Human Relations

CONTENT	PROCESS
What is Human Relations?	
This unit is designed to help the participants understand human relations and how it applies to business.	Instructor will define human relations. Participants will be asked to share their definition of human relations.
Human relations is the way people form and conduct relationships. These relationships can be either effective or ineffective. Human relations applies to employees as well as customers. Human relations includes ethics...that of doing what is right based on a set of moral values.	Instructor will show overhead transparency: TP 6-1: Human Relations
To understand human relations it is important to first understand self. How do you see yourself, relate to others, make friends, and what do you feel about your self-confidence? What are your values and your self-image?	Instructor will show overhead transparency: TP 6-2: Human Relations Start with Understanding Self
To improve human relations, you must be understanding, show interest in others, be willing to share, be honest, show respect and sensitivity, have a good attitude and avoid arguments. Above all you must smile.	Instructor will show overhead transparency: TP 6-3: To Improve Relationships
Understanding employee needs is important in the smooth operation of a business. By showing importance of the individual, having common interest, developing mutual acceptance, allowing open communications, allowing employee participation with local identity and possessing high moral standards employer-employee relations will improve.	Instructor will show overhead transparency: TP 6-4: Understanding Basic Employee Needs

CONTENT	PROCESS
Understanding what the customer needs is important to sales. By identifying the type of help they need, showing respect, offering comfort and empathy (if possible) as well as satisfaction and support along with a friendly face, the customer/business relations will also improve.	Instructor will show overhead transparency: TP 6-5: Understanding Basic Customer Needs
The ten commandments of human relations includes: Speaking and smiling at people. Calling People by name, being friendly and cordial and genuinely interested as well as being generous with praise. Being considerate with the feelings of others as well as being alert to service needed along with a sense of humor.	Instructor will show overhead transparency: TP 6-6: Ten Commandments of Human Relations
A quick self-evaluation of self will give you an idea of what type of individual you are.	Instructor will distribute handout: HO 6-1: Rating your Self Image Participants will complete the handout and discuss thoughts of self image and how it affects human relations.
Business ethics is a topic that sometimes is avoided because everyone is equipped with a different set of values. These values will affect the way a person reacts to business ethics.	Instructor will distribute and discuss handout: HO 6-2: How Ethical Can I Afford to Be
Ethics is also a part of human relations. It is important for businesses to treat their customers as well as employees in an ethical manner. It is important to determine if an error has been made in manufacturing what actions should be taken. In the article, "How Ethical Can I Afford to Be," what	The instructor will give a brief overview of the handout and ask for response from the group. The group will be asked to identify morals and ethics that apply to Polish businesses.

CONTENT	PROCESS
would your reaction be to correcting the existing problems with the trailer hitch. Would you recall all the trailers with possible defective hitches? Would you forget it? Would you take out additional insurance to cover any possible liabilities? If the issue of loss of life is involved, how would you react as a business owner?	
Ethics in education and business is difficult to qualify. In another handout concerning education, you will have to decide what the ethical or right thing to do.	Instructor will distribute and discuss handout: HO 6-3: Ethics Exercise
Since ethics is based on value systems, it is important to point out in this unit that the participants will probably not agree on the solutions of ethics questions, but it is hoped they will be able to see how different individuals will relate. It is hoped that in the discussion of ethics, an understanding of the total picture of human relations will be gained.	
Personal Ethics and the Entrepreneur discuss the issues of ethics and how they apply to the business owner.	Instructor will distribute handouts: HO 6-4: Personal Ethics and the Entrepreneur Instructor will briefly discuss the handout and ask for participant input. Instructor will distribute handout: HO 6-5a/b: Business Human Relations Situations (case studies) Participants will be divided into groups and asked to solve the exercises based on personal values, customer service, and Employee values.

CONTENT	PROCESS
There are basically four personality styles. Once we know what our personality style is, we can identify traits in other people.	Instructor will distribute and discuss handout: HO 6-6: Personality Evaluations Instructor will discuss the four types of personality style and explain importance of understanding each style.

HUMAN RELATIONS

The way people form and conduct relationships. These relationships can be either effective or ineffective. Human relations applies to employees as well as customers. Human relations includes ethics... that of doing what is right based on a set of moral values.

Human Relations
Start With Understanding Self

How do you see yourself?

How do you relate to people?

Are you outgoing?

Do you make friends easily?

What is self-image?

What are values?

How do you build self-confidence?

TO IMPROVE RELATIONSHIPS

- UNDERSTANDING
- INTEREST
- SHARING
- HONESTY
- RESPECT
- SENSITIVITY
- ATTITUDE
- AVOID ARGUMENTS

SMILE

UNDERSTANDING BASIC EMPLOYEE NEEDS

- IMPORTANCE OF THE INDIVIDUAL
- MUTUAL ACCEPTANCE
- COMMON INTEREST
- OPEN COMMUNICATION
- EMPLOYEE PARTICIPATION
- LOCAL IDENTITY
- HIGH MORAL STANDARDS

UNDERSTANDING BASIC CUSTOMER NEEDS

- HELP
- RESPECT
- COMFORT
- EMPATHY
- SATISFACTION
- SUPPORT
- A FRIENDLY FACE

TEN COMMANDMENTS OF HUMAN RELATIONS

- Speak to People
- Smile at People
- Call People by Names
- Be Friendly
- Be Cordial
- Be Genuinely Interested in People
- Be Generous with Praise
- Be Considerate with the Feelings of Others
- Be Alert to Give Service
- Add to These a Sense of Humor

Rating Your Many Styles

My Friendly Self

10	9	8	7	6	5	4	3	2	1
very friendly				generally friendly					not friendly

My Honest Self

10	9	8	7	6	5	4	3	2	1
always honest				usually honest					dishonest

My Greedy Self

10	9	8	7	6	5	4	3	2	1
not greedy				somewhat greedy					very greedy

My Modest Self

10	9	8	7	6	5	4	3	2	1
always modest				middle of the road					bragging

CASE STUDY

"How Ethical Can I Afford to Be?"

Catherine Stover
Editor, *Small Business Forum*

It was a disappointing damp spring afternoon. Instead of lifting, the fog was getting heavier. It was beginning to look like the kind of fog that Hollywood uses in scenes when bad news is at hand.

And bad news was at hand – but this was the outskirts of Des Moines, Iowa, not Hollywood – and it was happening to Steve Johnson, founder and owner of Johnson Utility Trailer, Inc. Here he was, on a Sunday afternoon, at his son's fifteenth birthday party, sitting in his avocado kitchen with his parents, his wife and his son. And he was looking at his worn-out corduroys, his wife's grey sweat suit, the cake and melting ice cream, wondering how he should break the news.

After his son opened the last present – a pair of tennis shoes that cost *how* much? – and left to join his friends, Steve knew that if he were a character in a B-movie, he would be able to hear the drum roll in the background. He said, "This is a bad time to talk shop, but there probably isn't going to be a better time to tell you about what happened last week."

Martha, his wife, stiffened and sat up perfectly straight. "I'm glad you're going to tell us. You've been pretty grouchy lately, and I knew there was something wrong."

Steve looked down at his coffee cup. "Last Wednesday, one of the trailers that we made in '86 came in for maintenance. One of the guys told me that the joint between the tongue and the trailer looked weak. He was right. It *was* weak."

The word *weak* settled into the quiet of the kitchen for several moments. Then Lars, Steve's father, asked, "But didn't you start using bigger bolts there a few years ago?"

"In '87, we started using three-eighths-inch bolts instead of quarter-inch bolts. We should have put them in from the start. It was stupid not to. I can't even remember why we didn't. They cost almost nothing more."

"But those first bolts met all the specs, didn't they?" Lars asked.

"Of course they did. Don't you remember the week I spent reading six volumes of SAE standards? I almost went blind. Before I hired anybody, I made sure everything met every standard."

Steve's mother, Barbara, said, "let me see if I understand what you men are talking about. The joint between the trailer and the tongue is wearing out in one of your older models and you could have prevented it by using a bigger bolt, but you didn't. But everything wears out. What's the big deal? You have always been such a worrier, Stevie."

"What if it breaks while it's being pulled uphill? It could slam into the next car and kill someone. That's a big deal."

"But honey, don't you have safety chains?"

"The safety chains go in *front* of the joint, Mom. They keep the coupler from breaking off the hitch, but they don't keep the tongue from breaking off the trailer."

Steve stood up, walked over to the kitchen window and looked toward his shop. It was a big grey building that always shimmered in Steve's dreams. "How could I live with that?" He turned back toward the table. "One law suit could shut this place down."

"Would it be out fault?" Martha asked.

"We say in three different places that the trailer's limit is 1000 pounds. I'm sure the joint would be okay if everyone did that. The reason

"What if it breaks while it's being pulled uphill? It could slam into the next car and kill someone."

we started using bigger bolts in '87 was because we saw that people were rough with the trailers or were overloading like idiots. You wouldn't believe what people put in trailers. And they drive like they're in the Indy 500."

Martha asked, "The trailer that you saw last Wednesday – had it been overloaded or something?"

"We can't afford to do that. Remember, we have twelve people on our payroll. Cash is tight."

I told the owner that I thought his trailer looked heavily used. He said that he drives over railroad tracks twice every day on his route. He looks like the kind of guy who wouldn't slow down. This trailer wasn't designed to hit railroad tracks at 60 miles per hour twice every day."

"So is it ready to fall apart?" Martha asked. Martha always spoke quickly, and today it annoyed Steve.

"He has a good maintenance record. But when anyone brings a trailer in, we always check the components."

"Components?" Barbara asked.

"The chain, the coupler, and the joint between the tongue and the trailer. All high stress points."

"Are the other two components okay?" Martha asked.

"They're fine. The chains are tested to break at three times their rating. The coupler is at two times. Now the joint is at two, but it wasn't before."

Barbara said, "So the joint wasn't as strong as the rest. It was the weakest part."

"Right. And it didn't have to be stronger, to meet the standards. It just made sense to upgrade it after I saw that people didn't take the 1000 pound limit seriously. It never said anywhere in the standards that all the components have to be equally upgraded. It just made sense to me to strengthen the weakest one."

"You have insurance, don't you?" Lars asked.

"Of course I do. But I never told the insurance company that in 1987 I decided to improve the joint. What if they say, 'You used to make inferior trailers so we won't cover those.' What if they say, 'Your old trailers are not safe and it's your own damn fault?"

Steve's father cleared his throat. "Everyone makes mistakes. In the 30 years that I ran my business, I learned a lot along the way by making my fair share of mistakes. Lay all your cards on the table and we'll look at your options. First of all, has anyone ever filed a complaint?"

"No."

"Anyone ever bring the joint in for repairs?"

"No. We spotted this one by ourselves."

"You don't think this will happen to the trailers you made since you started using the bigger bolt in '87?"

"I'm confident it won't."

"You opened in '86, right? How many trailers did you make before you improved the joint?"

"I looked it up. We made the change on November 13th, and we had manufactured 916 trailers before that."

"Do you have all those addresses?"

"Yeah. But probably a third or fourth of the trailers have been resold. And some of the people have moved. It won't be easy to track them down."

"Tracking them down probably won't be the worst part or the most expensive part," Lars said. "The worst part will be disrupting your business so you can make the repairs. And you have to decide if you will cover the owner's cost of bringing the trailer in."

"We can't afford to do that," Martha said quickly. "Remember, we have twelve people on our payroll. Cash is tight. And if the recession hits Iowa the way they say it's hitting the coasts, our cash flow is going to only get tighter."

Barbara said, "Martha, honey, I know this business means a lot to you too. Men tend to think their wives –"

"Let me tell you exactly what my position on this is," Martha said. "We have worked 12 hours a day, six days a week for five years so that we could have a profitable business to pass along to Zachary. We can't put all that in jeopardy just because some idiot *might* overload his trailer, or *might* go 60 miles per hour over railroad tracks every day, and then *might* sue us because the tongue comes off! It would be his own fault! Besides, it would be just as likely to break in his own driveway as it would going up a hill in front of a station wagon full of kids."

"Honey, you might be absolutely right. It may be that nothing would every go wrong. It also may be that if we send out letters that say, 'Guess what? Your trailer might break,' that we might be *increasing* our chances of getting sued. But we have to do the right thing."

"The right thing? You want to do the right

Johnson Utility Trailer, Inc.[1]
Comparative Profit and Loss Statements
For the years ended December 31

	1986[2]	1987	1988	1989	1990
NET BILLINGS	$116,230	$289,097	$458,903	$609,733	$681,283
COST OF GOODS					
Beg. finished goods inventory	-0-	$101,050	$133,710	$65,507	$29,597
Cost of goods mfg.	184,198	220,955	249,222	396,758	481,989
Goods available	$184,198	$322,005	$382,932	$462,265	$511,586
End. finished goods inventory	101,050	133,710	65,507	29,597	18,539
COST OF GOODS SOLD	$83,148	$188,295	$317,425	$432,668	$493,047
GROSS PROFIT	$33,082	$100,802	$141,478	$177,065	$188,236
OPERATING EXPENSES					
Selling	$16,871	$44,107	$60,178	$77,470	$98,844
Administrative	14,632	32,244	51,548	72,162	81,240
EBIT	$1,579	$24,451	$29,752	$27,433	$8,152
PROVISION FOR INC. TAX	$505	$7,717	$9,666	$9,362	$2,420
NET INCOME	$1,074	$16,734	$20,086	$18,071	$5,732

[1]A Sub-chapter S Corporation having filed articles of incorporation with the State of Iowa 1 March 1986.
[2]1986 figures are for 10 months.

"You want to do the right thing? Then make sure you can stay in business and pay your employees and have something besides debt to pass along to your son."

thing?" Martha lowered her voice to a whisper.

"Then make sure you can stay in business and pay your employees and have something besides debt to pass along to your son."

When she left the room, there was silence.

Finally, Lars said, "Steve, I'm sorry if I upset Mar–"

"Don't worry about it. She'll cool off. She's mad that I didn't go to her right away and talk with her alone about it first."

"Of course she is," Barbara said. "But she's also worried about Zack. She told me yesterday that she has a hard time justifying all the hours she has spent doing the books instead of keeping an eye on Zack. Sometimes teenagers – well, we can talk about that later."

Johnson Utility Trailer, Inc.
Comparative Balance Sheets
As of December 31

	1986	1987	1988	1989	1990
ASSETS					
Current Assets					
Cash	$381	$4,261	$5,009	$3,617	$984
A/R, Net	$9,685	$24,091	$47,802	$58,432	$64,722
Inventories					
Finished goods	$101,050	$133,710	$65,507	$29,597	$18,539
Work in progress	8,328	14,228	14,786	13,253	14,709
Raw materials	10,631	7,609	8,885	12,601	15,761
Total Current	$130,075	$183,899	$141,989	$117,500	$114,715
Total Long Term/Fixed	$78,088	$85,941	$129,971	$160,638	$126,874
Total Assets	$208,163	$269,840	$271,960	$278,138	$293,486
LIABILITIES					
Current	$133,132	$183,172	$149,838	$115,735	$138,267
Long Term	63,957	58,860	74,228	96,438	83,522
Total Liabilities	$197,089	$242,032	$224,066	$212,173	$221,789
EQUITY					
Capital Stock	$10,000	$10,000	$10,000	$10,000	$10,000
Retained Earnings	1,074	17,808	37,894	55,965	61,697
Total Equity	$11,074	$27,808	$47,894	$65,965	$71,697
Total Liability & Equity	$208,163	$269,840	$271,960	$278,138	$293,486

Steve sat down and looked at his father. "Dad, what should I do?"

"If I were you, I'd have a very frank discussion with the best product liability attorney I could find. And I would meet with your insurance man and find out what your coverage is exactly. And I would also be prepared to make some tough management decisions. If you are having cash flow problems now, you better get your house in order. The only thing we know for sure is that tough times are ahead."

Barbara started cleaning the kitchen table. She stopped long enough to stand behind her son and rub his shoulders. Steve listened to her bracelets hit each other. "This always helps your father," she said. "It seems like the end of the world now, but I'm sure you'll do the right thing, Stevie. Life goes on. The important thing is to be able to live with yourself."

Steve looked at the empty Nike box next to Zack's plate. Why did Martha spend all

You have no choice but to face this problem squarely and immediately.

that money on a pair of tennis shoes for Zack when she knew that things were tight? But this mess is not *her* fault, he told himself. *I'm* the one who has to decide if we can afford to solve this problem.

Or, if we can afford not to.

When his mother started clearing the table again, Steve stood up. He saw the lights on in the shop, and we went to talk with Martha. ■

What should Steve Johnson do? *A consumer advocate, an industry expert, an ethicist, a small business owner, and an attorney provide a range of perspectives on Steve's predicament in the letters that follow. The experts were asked, "If Steve had consulted you, what advice would you offer?"*

Offer a Product the Customers Can Believe In

William Taylor

> *William Taylor wrote* The Big Boys: Power and Position in American Business *(Panthenon Books, 1986) with consumer advocate Ralph Nader. Currently, he is associate editor of* Harvard Business Review.

Dear Steve:

Last week, I listened to you talk through all the thorny problems created by a quarter-inch bolt: how to track down more than 900 customers (many of whom may have resold their trailers), whether disclosing the problem creates more legal liability than not disclosing it, and how the company can afford to address the issue in the current economic climate. I felt like your situation was hopelessly complex.

And yet, the more I've considered things, the simpler the problem has become. This is not a case about product liability, insurance, or cash flow. It's not even a case about a mistake made four years ago. It is a case about *values*. What kind of company do you want John Utility Trailer to be? What kind of business person do *you* want to be?

Let me change perspectives for a moment. I know how much you and Martha and Zack love water skiing. What if we weren't talking about a bolt on a trailer but a part in your outboard motor – a part that wasn't *likely* to break, especially if you treated the motor with the care and attention that the owner's manual spells out very clearly, but that *might* break if you continued to indulge in your daredevil tendencies? And if the bolt did break, it might make you lose control of the boat and create real danger for whomever was skiing.

Would you be very sympathetic to the outboard motor manufacturer as it debated how likely it was for a motor to break, as it complained about the daredevils who used their motors under less-than-ideal circumstances, and whose answer to touch economic times is to decide the problem is too expensive to fix? Would you find it possible to believe in that company again? Would you ever consider buying another motor from them?

You have no choice but to face this problem squarely and immediately. You must do whatever it takes to replace the small bolts with bigger bolts. You may run some financial risk as a result. But consider the risk if just one bolt breaks – even if you are legally insulated. Do you think future sales, no matter how sturdy the trailer, will be unaffected by a tragedy? More to the point, is this the kind of company you've worked 12 hours a day, six days a week, to build? Is this the kind of company you want to pass on to your son? Rather than agonize over whether to act, it's time to focus creative energies on how to solve this problem most effectively – and how to turn it into a plus for the organization.

Let's be straight about another point. Great products today – robust products is the term I prefer – aren't products that perform as promised when used under ideal conditions. Robust products perform as promised under *even the most abusive and difficult conditions.* If we've learned anything from the rise of Japan over the past decade, it's the awesome competitive power of reliability, durability, and quality. In your business, that means building and selling trailers that perform not just when driven 40 miles per hour over railroad tracks. That's what customers expect, that's what the market demands – and it's what you expect as well. Why else did you build in such excess strength in the chains and the coupler?

So what to do? I'm not an expert in insurance or product liability, and given the state of affairs in

these things, it certainly makes sense to consult with an attorney or insurance expert for technical details. But those are background briefings. A company with values focuses on the substance of the issue and how best to serve its customers.

I propose two concrete steps:

Invite your employees to help solve the problem. Call a meeting of the entire company and announce that you have discovered this potential problem. Announce the creation of "Campaign Retrofit" and ask a small number of employees – one from sales, one from maintenance, one from manufacturing – to join you on a task force to develop creative solutions to the problem of locating the 916 trailers quickly and effectively. A small group of people can develop great ideas. And think about the effect on employee morale and commitment when everyone sees how seriously you take this issue.

Turn the retrofit process into a marketing opportunity. Your relationship with these customers is likely to become stronger rather than weaker. Let me cite a recent precedent from a much larger company. In 1988, General Electric discovered that it had committed a massive blunder in its new line of refrigerators. The compressor unit – the guts of the appliance – had a design flaw that meant the refrigerator might leak or stop working in certain situations. Did GE wait for lawsuits or blame the problem on customer misuse? No. They *voluntarily* replaced more than a million compressor units, sending repair technicians into homes across the country for service visits that could last up to 90 minutes or two hours – a program that required a charge-off of $450 million! Is GE worse off for fixing a problem before most customers knew it existed? Hardly. Not one lawsuit has been filed and GE's market share in refrigerators has increased over arch-rival Whirlpool.

As competition grows more intense in industry after industry, and as the companies that survive get closer and closer to each other in terms of price, service, and quality, it becomes more and more difficult to differentiate among competitors. One of the few remaining sources of differentiation is values, which means offering a product that customers not only buy, but believe in. This problem – unfortunate as it is – gives your company the opportunity to define its values.

Sincerely,

William Taylor

Did GE wait for lawsuits or blame the problem on customer misuse? No. They voluntarily replaced more than a million compressor units.

You Are Worried About the Wrong Things

G. Medford Smith

G. Medford Smith is the manager of certification services for the National Marine Manufacturers Association in Chicago. He inspects boats and trailers for compliance to federal regulations and voluntary standards for member manufacturers and has been an expert witness in product liability cases as a representative for his former employers.

Dear Steve:

You asked me for advice because you know that I testify at product liability trials. I'll advise you on how to talk with your insurance company and how to do a recall, but I don't think that those are your biggest problems. Your biggest challenge is to run a profitable business. That's hard to do when you overbuild your trailers and incur greater expenses than your competitors.

You seemed surprised when I told you over the phone that your biggest mistake was increasing the size of the bolt. Let me make this clear: overbuilding your products doesn't solve problems – it creates problems. If you manufacture the frame, axle, spindles, hubs, tires, coupler and safety chains in one class greater than standard, you manufacture a product that costs more than the competitors'. That is not good business practice. You will not stay in business long if your costs are higher than they have to be.

Let me make this clear: overbuilding your products doesn't solve problems -- it creates problems.

Look at your materials costs last year. It appears that the cost of materials increased at a greater rate than the sales volume. What does that tell you? Watch your profit margins closely if you want to stay in business.

Now that I've given you advice that you didn't ask for, I'll give you the advice that you did ask for. Here's how I would approach your insurance company.

The first thing I think you should do is notify your insurance carrier. Notice that I said carrier – not agent. If I were you, I wouldn't rely on your local agent for guidance on important probable liability exposures. Contact an officer of the home office and get responses in writing. You need your insurance company on your side, and you cannot afford to have a verbal okay when it comes to product liability.

Don't presume that your insurance company will not stand behind you. Insurance companies know that manufacturers improve and change their products to utilize better materials or improved manufacturing equipment and techniques.

When you write to your carrier, make sure that you keep copies of everything in a safe file and that you are able to show proof of delivery.

Your first letter should include written notification of the date of discovery of the possible weakened attaching point on the trailer, the number of units manufactured with the smaller bolts, and the date that the engineering change to the larger bolts was started in the manufacturing process.

Check to be sure that your insurance carrier is experienced in product liability for manufacturing. (Many companies will sell insurance, but they don't necessarily know how to defend their clients in court.) In the event that you are named as a defendant in a liability suit, you will not have to stand alone in court and pay all the legal fees associated with your company's defense. That is what your insurance company is for. The costs to defend your company are written into your insurance policy.

But in my opinion, you should not worry about product liability. You manufacture trailers that are in compliance with all known standards. You use the normal safety tolerances for the components and their attachments. No matter how strong or overbuilt the product is, misuse and overloading still occurs. But overloading of a truck, a hoist, a boat, or any product is beyond the manufacturer's control. That is why load calculations, stresses, and safety margins are built into standards.

If you see a trailer that belongs to a customer who overloads or misuses it, you should have a repair checklist that shows the results of such conditions. Prior to servicing, advise the customer that overhaul is beyond any normal warranty or service. Give the customer a written estimate of the charges before you begin the service. Consider including a statement ont he estimate that indicates that such repairs are to correct the results of misuse and/or overloading beyond the trailer's rated and posted capacity. Then, have your customers sign an Overhaul Work Order that authorizes the repairs.

Of course, you should discuss all of these matters with your insurance carrier.

You have asked me how I would handle the recall process if I were you. Briefly, I would consult with the insurance company on the wording they suggest for the reason for the replacement of the bolts. They might even advise you to do nothing. If so, get it in writing.

But if they do suggest a bolt replacement, I would send the replacement bolts, a cover letter explaining what the bolts are for and a complete set of instructions telling exactly how to replace the bolts. Send all such packets by Certified Mail Return Receipt Requested. Keep an accurate record of date of mailing and date received by the customer. Keep your insurance company posted periodically as to the percent of completion of the mailing.

Steve, I hope you make it through this. As I told you on the phone, I think that you're worrying about the wrong things. Anyway, if something comes up, give me a call. I'll be happy to tell you what I think.

Sincerely,

G. Medford Smith

G. Medford Smith

Do the Right Thing, But Don't Be Naive

Denis Collins

Denis Collins teaches business ethics at the University of Wisconsin-Madison, where he is an assistant professor at the graduate School of Business. He has published numerous articles in the areas of business ethics, participatory management, and social philosophy.

Dear Steve:

I'm sorry to hear about the problems that may be on your business horizon. Based on your letter to me, it appears that you are quite concerned about the potential harms that may be caused if one of the bolts on your 1986 trailer model should malfunction. You considered putting the larger three-eights-inch bolts on the 1986 model but opted for small quarter-inch bolts instead, a size that met allowable standards. Let's not dwell on second guessing the original decision. It's fortunate that your heart was in the right place and you changed over to the larger bolts in 1987. Now you only have to worry about the 916 trailers from the 1986-model year instead of every trailer you have ever sold.

Your business dilemma sounds similar to a play Miss Mezzadri made us read back in high school English. Do you remember when our class read Arthur Miller's *All My Sons*? It's the play about a small-business owner who made a decision to sell a potentially malfunctioning product. Unfortunately, the use of the product caused the accidental death of his son. Neither he nor the other family members could forgive him. Your own situation need not end so tragically, yet it seems as though the possibility of the death of an innocent bystander keeps you up at night.

The way I see it, you have four options: (1) Do nothing and pray that nothing happens, (2) Make sure you are appropriately covered for product liability and then forget about the problem, (3) Bring in all the 1986 trailers and replace the quarter-inch bolt with the three-eighths inch bolt, or (4) Figure out a way to get the repair work done at minimal cost to you. Let's explore each option.

Option one. Do nothing and pray that nothing happens. (After all, there have been no complaints.) However, you do know that people are using the trailers recklessly and against specifications, thus a tragic accident is likely to happen at some point in the future. You realized this when you changed the size of the bolts in 1987. As you said in your letter, you'd consider yourself very lucky if nothing tragic happened. If something tragic does happen, you may end up fiscally, emotionally, and morally bankrupt.

Option two. Make sure you are appropriately covered for product liability and then forget about the problem. This may fiscally protect your business in case there are any tragic accidents, but one never knows what a judge or jury might decide in cases like these. No matter what the legal system decides, if there is an accident, your conscience will bother you for the rest of your life. Personally, I think attempting to fortify yourself with liability insurance is a major gamble and you may lose everything, particularly your dignity.

Option three. Bring in all the 1986 trailers and replace the quarter-inch bolt with the three-eighths-inch bolt. You noted that you may not be able to trace the owners of all 916 trailers. I think this problem is manageable. You have the list of the original 916 customers. You say that most likely 25 to 33 percent of the trailers have been resold. From an optimistic perspective, this means that between 614 and 687 trailers can be easily traced; that's not a bad start. If the remaining trailers are still legitimately being used for business purposes (the high risk group), I would think you could trace the remaining 229 to 302 trailers from the original owners. The trailers you can't trace may simply be abandoned. Your product liability lawyer should be able to protect you from any claims due to their misuse.

But, even if you can trace the trailers, the cost to bring the trailers in for repair would be excessive and could bankrupt the business. Twelve people do depend upon you for a job, but you can't put these 12 people ahead of the lives of innocent bystanders. Don't use these 12 employees as rationalization for taking no constructive action.

But, even if you can trace the trailers, the cost to bring the trailers in for repair would be excessive and could bankrupt the business.

They may have you for it if something tragic does happen. I think your real concern is that you fear this option may force you to go bankrupt. We certainly don't want that to happen. This leads me to a fourth option.

Please don't use the lawyer as a means of overlooking irresponsible behavior. But also don't be naive.

Option four. Figure out a way to get the repair work done at minimal cost to you. This will take some creative thinking on your part, but I have confidence that you can do it. One way might be to send the three-eighths inch bolt to each owner via registered mail and ask that the bolt be installed by their local mechanic at your expense. Find out how much the installation would cost and then guarantee to pay for the installation within a reasonable price range. The owner could send you the bill for the installation cost. You'll have to bite the bullet on this cost. Doing the moral thing in business sometimes entails a short-term expenditure for long-term benefits. You've told me several times that you want to involve your employees in some company decisions. Why don't you ask them how you could minimize the repair expenditure?

As you requested, I looked into your financial situation with my own financial advisor, and we tried to determine what you could afford. Cash is tight right now and you have to be concerned about the cost of providing bolts and paying for installation. However, this is not an insurmountable problem, even given your current financial position. Let me explain what I mean.

Consider first the cost of the proposed program. Probably the most expensive component will be the cost of registered mailings for 900 letters. I estimate approximately 42,000. Cost of parts will be minimal – less than $300. The cost of your time is more difficult to gauge, but you probably haven't been as productive as you could be during the last few weeks while you wrestled with the problem. So perhaps the direct cost of the program will be $3,000 or $3.28 per one-fourth inch bolt per trailer.

Can you afford to spend $3,000 – strictly in economic terms? Do you have any practical ways of raising $3,000? Let me offer three alternatives.

First, your accounts receivable has increased nearly $6,300 in the last year. In fact, the last year's increase is part of a long-term rise in receivables. Some of that is natural as a business expands, but some portion is also controllable. You should investigate the account to see where an increase in cash flow might be available. If you collect only half of the increase int he balance of the account, you will have enough to fund your recall program.

Second, you have a strong equity position in the business. Your debt/equity ratio has steadily declined over the last five years as you have built the business. While your business is not as profitable as it has been, you are not losing money. Bankers would probably be willing to listen to a proposal for a line of credit against which you could borrow in the short-run. Obviously, adding to your debt load may not be a good long-term strategy at this point, but a well-conceived plan for the use of short-term funds is generally acceptable. Besides, what you're really doing is borrowing against future sales growth. Your sales *have* continued to rise.

Third, your gross profit percentage has declined over the last few years, but the story of your decline in net profit is told more forcefully by the rapid increase in operating expenses. You should look very closely at those expenditures. In a cash flow crisis, you need to reduce unwarranted expenses. If you check, I'm sure you will find some savings, which when coupled with your enhanced cash flow from collections of receivables, will probably allow you to finance the recall program internally.

In short, even though there are some risks to instituting a recall, you have the financial wherewithal to bring it about. The answer may be in learning to be a better financial manager.

I would also like to say that I think your father has the right idea about checking with the best product liability lawyer around, but don't check with him to see if you can escape responsibility. Instead, check with him to see how you can respond to this problem in a responsible manner. Tell the lawyer that you want to do the right thing rather than shirk your responsibilities. Ask him about sending out the letter, or how to word the letter such that it won't be used against you. Please don't use the lawyer as a means of overlooking irresponsible behavior. But also don't be naive.

Some owners might refuse to install the bolt even though you mailed it to them and offered to pay the installation costs. Find out from the lawyer how to protect yourself from owner negligence after you've made them an offer in good faith.

Personally, I think that the fourth option is the best one. It'll prevent any needless tragedies and ease your conscience. Let me know how things turn out. Don't hesitate to call me if you want to brainstorm other creative solutions. And, of course, give my best to your family.

By the way, I still have a worn out copy of *All My Sons* in case you have lost your copy. It's a quick read for a Sunday afternoon. Can you believe that after all these years Miss Mezzadri is still teaching English? It's been almost twenty years since we had her. What perseverance!

Best regards,

Denis Collins

Denis Collins

You Are Overreacting

Arthur Freeman

Arthur Freeman is co-owner of Spartan Products, Inc., a trailer manufacturer in Minnesota.

Dear Steve:

After listening to your problem, I think that you are overreacting. Let's go over the facts again together.

In 1986 you built a 1000-pound capacity trailer using a one-fourth inch bolt connecting the tongue to the trailer. You sold 916 of these trailers before making a change in 1987 to three-eighths inch bolt. That means the trailers with one-fourth inch bolts have been in use for more than four years and you have had no failures.

I understand that a week ago Wednesday a customer brought in one of the 1986 trailers for maintenance work. One of your men thought the connection using the one-fourth inch bolt seemed weak. You also learned that the owner of this trailer admitted to constantly overloading and driving his loaded trailer at high speeds over railroad tracks. Now so far, Steve, do you agree that this is a fair statement of the facts? Okay, so let's go on.

In 1987, you decided to change the one-fourth inch bolt connecting tongue to trailer to a three-eighths inch bolt. You did this because in your mine this would be a safety improvement on your trailer. You determined 916 trailers had been sold with the one-quarter inch bolt.

All 916 of these trailers have been in use for four years. No failures. So where is the problem? I feel it basically is with you.

All 916 of these trailers have been in use for four years. No failures. So where is the problem? I feel it basically is with you.

You doubt that the one-quarter inch bolt connection is strong enough and you fear the tongue and trailer will separate and someone might get seriously hurt. Maybe it would help if you surveyed all the data you compiled in 1986 on standards and strengths before making the trailers. Would you feel better if your review showed one-quarter inch bolts were safe for connection of tongue to trailer? Probably you would still feel some doubt. So let's see how we can ease your mind without taking any drastic action that could endanger the life of your business.

Let's first look at monies available to spend for a solution. That's not very helpful because even at the small sum of $10 per trailer you exceed your last year's profit before taxes. So we must find a way without any immediate out-of-pocket money. Here is a suggestion. Check sales records to see if you can find about 20 or so owners close to your factory. Ask them to bring their trailers in for your inspection. If they will not bring them, you should arrange to pick them up. Carefully inspect these trailers so that you can make a better judgment as to the potential danger of tongue separation from the trailer. If, after the inspection, you are certain that there is no problem, then you can consider this matter closed. If however, you feel there is the slightest danger of separation, something must be done to repair the other trailers.

You should then contact all the owners by Registered Mail Receipt Requested. Inform them about a potential safety problem. Supply a drawing, the right size bolt and nut, and complete instruction on how to remedy the problem. Make sure

this is presented as a very serious matter that could be life-threatening. Also, enclose a return postage card for them to send to you when they have completed the repairs. Keep after the owners until you get their cards. Contact them again and again. Stay after the non-delivered letters to see if you can find the balance of the trailers. If you do this daily, I know you will eventually find all the trailers.

I am certain you agree that if the danger is there, the correction must be made. Even if it takes your profit for the coming season, it is the right thing to do.

Steve, in reviewing the information you sent me, I noticed a disturbing trend. Your gross profit percentage is going down, even though your sales have increased. Also, your expenses are going up beyond the extra gross on the increased sales. This results in more sales and less profit. Not a good sign. You should take a careful look at this.

Regards,

Arthur Freeman

Institute a Product Alert and Recall Program Immediately

Richard J. Delacenserie

Richard J. Delacenserie is a partner with the law firm of Boardman, Suhr, Curry & Field in Madison, Wisconsin. A substantial portion of Mr. Delacenserie's practice is devoted to product liability litigation and the counseling of business clients concerning product liability issues.

Dear Mr. Johnson:

You have asked for my advice concerning the potential liability of Johnson Utility Trailer, Inc. for damages or injuries that might result if the tongue joint on one of the trailers manufactured by your company before 1987 fails and causes an accident. Specifically, you have asked me to address two related questions:

- If an accident is caused by failure of the tongue joint on one of the pre-1987 trailers that used the smaller tongue joint bolt, will Johnson Utility Trailer, Inc. be liable for damages or injuries which result from the accident?
- Should Johnson Utility Trailer, Inc. implement a recall of the pre-1987 trailers and, if so, what form should the recall take?

Liability of Johnson Utility Trailer, Inc. A manufacturer of a product has a duty to exercise ordinary care to ensure that the product, when used in an intended or foreseeable manner, will not create an unreasonable risk of injury or damage to the product's user. Failure of the manufacturer to exercise ordinary care constitutes negligence, and the manufacturer can be held liable for injury or damages caused by its negligence. A manufacturer can be negligent by (1) failing to take reasonable steps to incorporate into a product design which renders the product safe and fit for its intended and foreseeable uses, (2) failing to construct or assemble the product in a workmanlike manner, (3) failing to adequately inspect and test the product before marketing it, or (4) failing to provide adequate instructions concerning the proper use of the product or warnings addressing dangers associated with intended or foreseeable uses of the product.

A manufacturer that exercises ordinary care in the design, manufacture, and sale of a product, and is therefore not negligent, may nevertheless be found liable to an injured party under the doctrine of strict liability. In order to prevail under the doctrine of strict liability, an injured person must show that the product had a defect that rendered the product unreasonably dangerous. It is not necessary to show that the defect resulted from the manufacturer's negligence. A product is considered unreasonably dangerous when it is more dangerous than an ordinary user of such a product would expect. A product is considered defective when it is designed or manufactured in such a way that it is unsafe for normal use. If a product is found to be defective and unreasonably dangerous, the manufacturer of the product may be found liable for injury or damages caused by the product's defect even if the manufacturer exercised reasonable care and took reasonable precautions in the product's design, manufacture, and sale.

If one of your pre-1987 trailers were involved in an accident, the liability of Johnson Utility Trailer,

Inc. would depend in large part on the particular facts surrounding the use of the trailer and the accident itself. It is therefore difficult to predict the outcome of a claim for damages resulting from such an accident. However, based on the information you have provided concerning the design and manufacture of your trailers, I believe that Johnson Utility Trailer, Inc. faces a serious risk of an adverse finding of negligence and/or strict liability if one of its pre-1987 trailers is involved in an accident. Facts which would support a finding of negligence and/or strict liability adverse to Johnson Utility Trailer, Inc. include the following:

- Pre-marketing testing of the tongue joint showed that, with the quarter-inch bolts, the tongue joint was substantially weaker than either the chains or the coupler.
- The danger associated with the weakness in the tongue joint could have been avoided at virtually no additional cost by the use of larger bolts.
- At least since 1987, Johnson Utility Trailer, Inc. has known that the trailers which incorporate the smaller bolts have the potential for failing at the tongue joint under certain operating conditions.
- Johnson Utility Trailer, Inc. has known for quite some time that some users of its trailers overload the trailers and operate the trailers at higher than ideal speeds, which could cause the tongue joint to weaken and fail.
- Johnson Utility Trailer, Inc. knows that failure of the tongue joint could lead to an accident, which under certain circumstances could cause serious injury or death.
- Although Johnson Utility Trailer, Inc. changed the design of the tongue joint in 1987 so as to incorporate larger bolts, it took no steps to correct the potential tongue joint problem in pre-1987 trailers or to warn trailer owners of the danger associated with the tongue joints.
- Based on the fact that the weakness in the tongue joint was discovered by Johnson Utility Trailer, Inc. and has never been the subject of a request for repair by a trailer owner, it could reasonably be concluded that the potential weakness of the tongue joint is a defect which is not apparent to the trailers' users.

If an accident involving one of the pre-1987 trailers results in a claim against Johnson Utility Trailer, Inc., some facts favor your defense. You could show that the trailer as designed and manufactured with the smaller bolts met all applicable industry specifications and standards. In addition, the trailers' owner's manual clearly states the trailers' load limit. You could prove that there would be little risk of failure if the trailers' load limit was not exceeded, and that Johnson Utility Trailer, Inc. has no notice of any previous accident involving a failure of the tongue joint on one of the pre-1987 trailers.

However, despite these facts, I believe that the facts available to be used against Johnson Utility Trailer, Inc. in a product liability action following an accident would more likely than not lead to a finding of negligence, strict liability, or both against Johnson Utility Trailer, Inc.

Product recall. Due to the likelihood that Johnson Utility Trailer, Inc. would be held responsible for injuries or damages caused by an accident involving the tongue joint of one of the pre-1987 trailers, I would recommend that Johnson Utility Trailer, Inc. institute a product alert and recall concerning the pre-1987 trailers.

An alert and recall would serve two purposes. First, and most important, an alert and recall would substantially reduce the risk that one of the pre-1987 trailers would be involved in an accident Second, implementation of an alert and recall may under some circumstances reduce the chances of a finding of liability against Johnson Utility Trailer, Inc. if, despite the alert and recall, an accident involving one of the pre-1987 trailers does occur.

As discussed above, a manufacturer has an obligation to warn product owners of dangers known to be associated with the use of a product. This obligation extends not only to dangers associated with the intended and proper use of a product, but also to dangers associated with known or reasonably foreseeable misuses of a

I believe that Johnson Utility Trailer, Inc. faces a serious risk of an adverse finding of negligence and/or strict liability if one of its pre-1987 trailers is involved in an accident.

product. You are confident that the pre-1987 trailers would not fail if used in accordance with the instructions provided in the owner's manuals. However, you know that some trailer owners do not use the trailers in compliance with the instructions and that such misuse of the trailers can lead to failure of the tongue joint.

Such a program would obviously involve a substantial expense to Johnson Utility Trailer, Inc.

Accordingly, you must take reasonable steps to warn trailer owners of the danger. The only practical way to fulfill this obligation is to issue a product alert. The product alert could consist of a mailing to all known owners of pre-1987 trailers advising them of the tongue joint problem you have discovered. In developing the language of the product alert, you will experience a natural inclination to downplay the seriousness of the tongue joint problem. I would advise you not to do so. In order for a warning to be legally sufficient, it must be strong enough to fairly advise the product owner of the magnitude of the danger associated with the product's use. Thus, your product alert should specifically advise that overloading or other misuse of a pre-1987 trailer could cause the tongue joint to fail, which could cause the trailer to separate from the towing vehicle and lead to serious injury to or death of anyone in the runaway trailer's path. You should advise owners to immediately stop using any trailer that shows any sign of weakening at the tongue joint.

There are probably pre-1987 trailers in the field that have already experienced weakening of the tongue joint due to the use of the smaller bolt. Thus, in addition to the product alert, Johnson Utility Trailer, Inc. should institute a product recall or retrofit program with respect to all pre-1987 trailers. You should take steps to replace the smaller bolts on the pre-1987 trailers with the larger bolts you began using in 1987.

You could probably best accomplish this by developing a retrofit kit which would allow for replacement of the bolts by Johnson Utility Trailer, Inc. dealers. For owners not located conveniently near an authorized dealer, Johnson Utility Trailer, Inc. should offer to pay the owner's expense of bringing the trailer to the nearest dealer for the retrofit. For owners who are unwilling to travel to the nearest dealer for the retrofit, Johnson Utility Trailer, Inc. should arrange to have a dealer or factory representative make the retrofit in the field.

Such a program would obviously involve a substantial expense to Johnson Utility Trailer, Inc. However, the cost of a single serious accident involving failure of one of the pre-1987 trailers could greatly exceed the cost of the retrofit program. Thus, institution of the recall program may be an economically sound course of action in the long run.

I believe that implementation of the above product alert and recall procedures would substantially reduce the risk of accidents involving the pre-1987 trailers. I also believe that these procedures would decrease the likelihood that Johnson Utility Trailer, Inc. would be found liable for injuries or damages resulting from an accident. Implementation of the above procedures would, I believe, represent a reasonable attempt to reach trailer owners, warn them of the potential for weakening of the tongue joint in the pre-1987 trailers, and accomplish a cure of the existing problem with the tongue joints.

Implementation of the alert and recall program would not, however, eliminate all risk of future liability for accidents caused by failures of the tongue joints on pre-1987 trailers. Because some of the pre-1987 trailer owners have moved and others have sold their trailers, it cannot be expected that all pre-1987 trailer owners will be reached through the alert and recall program. It is also likely that some owners who are reached through the program will ignore the alert and will decline to participate in the retrofit program. Those who ignore your warnings will clearly have a difficult time prevailing against Johnson Utility Trailer, Inc. in a legal action should they be injured in an accident involving one of the pre-1987 trailers.

An accident involving a pre-1987 trailer whose owner is not reached by the alert and recall program, however, would very likely result in a finding of liability against Johnson Utility Trailer, Inc. Ironically, such claims may be strengthened by your alert and recall efforts. The alert and recall program will likely be admissible as evidence in a case involving failure of one of the pre-1987 trailers, and would probably be considered an admission that the pre-1987 trailers were defective in design. An aggressive attempt on the part of Johnson Utility Trailer, Inc. to locate all pre-1987 trailer owners, however, should limit to a very small percentage the group of owners who are not reached by the program.

Although a product alert and recall program would not totally eliminate Johnson Utility Trailer, Inc.'s risk of liability concerning the pre-1987 trailers, I believe an alert and recall program along the lines outlined above would substantially reduce the risk of loss to Johnson Utility Trailer, Inc. with respect to the pre-1987 trailers. Because a single accident involving failure of one of the pre-1987 trailers could result in serious injury, and could represent a catastrophic financial loss for Johnson Utility Trailer, Inc., I recommend that the alert and recall program be put into effect as soon as possible.

Sincerely,

Richard J. Delacenserie

An accident involving a pre-1987 trailer whose owner is not reached by the alert and recall program, however, would very likely result in a finding of liability against Johnson Utility Trailer, Inc.

EXERCISE
ETHICS

Name:

Date:

PART I

STEP 1: MAKE DECISIONS IN THE FOLLOWING SITUATIONS. You will not have all the background information on each situation, and, instead, you should make whatever assumptions you feel you would make if you were actually confronted with the decision choices described. Select the decision choice that most closely represents the decision you feel you would make personally. You should choose decision choices even though you can envision other creative solutions that were not included in the exercise.

Situation 1. You are taking a very difficult chemistry course, which you must pass to maintain your scholarship and to avoid damaging your application for graduate school. Chemistry is not your strong suit, and, because of a just-below failing average in the course, you will have to receive a grade of 90 or better on the final exam, which is two days away. A janitor, who is aware of your plight, informs you that he found the master stencil for the chemistry final in a trash barrel and saved it. He will make it available to you for a price, which is high but which you could afford. What would you do?

_____ *(a)* I would tell the janitor thanks, but no thanks.
_____ *(b)* I would report the janitor to the proper officials.
_____ *(c)* I would buy the exam and keep it to myself.
_____ *(d)* I would not buy the exam myself, but I would let some of my friends, who are also flunking the course, know that it is available.

Situation 2. You have been working on some financial projections manually for two days now. It seems that each time you think you have them completed your boss shows up with a new assumption or another "what-if" question. If you only had a copy of a spreadsheet software program for your personal computer, you could plug in the new assumptions and revise the estimates with ease. Then, a colleague offers to let you make a copy of some software which is copyrighted. What would you do?

_____ *(a)* I would readily accept my friend's generous offer and make a copy of the software.
_____ *(b)* I would decline to copy it and plug away manually on the numbers.
_____ *(c)* I would decide to go buy a copy of the software myself, for $300, and hope I would be reimbursed by the company in a month or two.
_____ *(d)* I would request another extension on an already overdue project date.

Situation 3. Your small manufacturing company is in serious financial difficulty. A large order of your products is ready to be delivered to a key customer when you discover that the product is simply not right. It will not meet all performance specifications, will cause problems for your customer, and will require rework in the field; but this, you know, will not become evident until after the customer has received and paid for the order. If you do

not ship the order and receive the payment as expected your business may be forced into bankruptcy. And if you delay the shipment or inform the customer of these problems you may lose the order and also go bankrupt. What would you do?

_____ *(a)* I would not ship the order and place my firm in voluntary bankruptcy.
_____ *(b)* I would inform the customer and declare voluntary bankruptcy.
_____ *(c)* I would ship the order and inform the customer, after I received payment.
_____ *(d)* I would ship the order and not inform the customer.

Situation 4. You are the cofounder and president of a new venture, manufacturing products for the recreational market. Five months after launching the business, one of your suppliers informs you it can no longer supply you with a critical raw material since you are not a large-quantity user. Without the raw material the business cannot continue. What would you do?

_____ *(a)* I would grossly overstate my requirements to another supplier to make the supplier think I am a much larger potential customer in order to secure the raw material from that supplier, even though this would mean the supplier will no longer be able to supply another, noncompeting small manufacturer who may thus be forced out of business.
_____ *(b)* I would steal raw material from another firm (noncompeting) where I am aware of a sizable stockpile.
_____ *(c)* I would pay off the supplier, since I have reason to believe that the supplier could be "persuaded" to meet my needs with a sizable "under the table" payoff that my company could afford.
_____ *(d)* I would declare voluntary bankruptcy.

Situation 5. You are on a marketing trip for your new venture for the purpose of calling on the purchasing agent of a major prospective client. Your company is manufacturing an electronic system that you hope the purchasing agent will buy. During the course of your conversation, you notice on the cluttered desk of the purchasing agent several copies of a cost proposal for a system from one of your direct competitors. This purchasing agent has previously reported mislaying several of your own company's proposals and has asked for additional copies. The purchasing agent leaves the room momentarily to get you a cup of coffee, leaving you alone with your competitor's proposals less than an arm's length away. What would you do?

_____ *(a)* I do nothing but await the man's return.
_____ *(b)* I would sneak a quick peek at the proposal, looking for bottom-line numbers.
_____ *(c)* I would put the copy of the proposal in my briefcase.
_____ *(d)* I would wait until the man returns and ask his permission to see the copy.

Source: *Timmons, Jeffry A. New Venture Creation chapter 9 "Personal ethics and the entrepreneur"; third edition.*

Part II

STEP 1: BASED ON THE CRITERIA YOU USED, PLACE YOUR ANSWERS TO EACH OF THE ABOVE SITUATIONS ALONG THE CONTINUUM OF BEHAVIOR SHOWN BELOW:

	Duty	Contractual	Utilitarian	Situational
Situation 1				
Situation 2				
Situation 3				
Situation 4				
Situation 5				

STEP 2: AFTER SEPARATING INTO TEAMS OF FIVE TO SIX PEOPLE, RECORD THE ANSWERS MADE BY EACH INDIVIDUAL MEMBER OF YOUR TEAM ON THE FORM BELOW. Record the answer of each team member in each box and the team's solution in the column on the far right.

Member Name

Team Answer

Situation 1						
Situation 2						
Situation 3						
Situation 4						
Situation 5						

STEP 3: REACH A CONSENSUS DECISION IN EACH SITUATION, IF POSSIBLE, AND RECORD THE CONSENSUS WHICH YOUR TEAM HAS REACHED ABOVE. Allow 20 to 30 minutes.

STEP 4: REPORT TO AND DISCUSS WITH THE ENTIRE GROUP YOUR TEAM'S CONCLUSIONS AND HOW THE CONSENSUS, IF ANY, WAS REACHED. The discussion should focus on the following questions:

- Was a consensus reached by each group?
- Was this consensus difficult or easy to achieve and why?
- What kinds of ethical issues emerged?
- How were conflicts, if any, resolved, or were they left unresolved?

STEP 5: DISCUSS WITH THE GROUP THE FOLLOWING ISSUES:

- What role do ethical issues play and how important are they in the formation of a new venture management team?
- What role do ethical issues play and how important are they in obtaining venture capital—that is, how do investors feel about ethics and how important are they to them?
- What feelings bother participants most about the discussion and consensus reached—for example, if a participant believes that his or her own conduct was considered ethically less than perfect, does he or she feel a loss of self-respect or a sense of inferiority; does he or she fear others' judgment, etc.?

STEP 6: DEFINE EACH GROUP MEMBER'S GENERAL ETHICAL POSITION AND NOTE WHETHER HIS OR HER ETHICAL POSITION IS SIMILAR TO OR DIFFERENT FROM YOURS:

Member	Position	Different/ Similar

STEP 7: DECIDE WHOM YOU WOULD AND WOULD NOT WANT AS A BUSINESS PARTNER BASED ON THEIR ETHICAL POSITIONS:

Would Want	Would Not Want

Personal Ethics and the Entrepreneur

9

If you gain financial success at the expense of your integrity, you are not a success at all.

John Cullinane
Founder of Cullinet, Inc., and 1984 Inductee,
Babson Academy of Distinguished Entrepreneurs

RESULTS EXPECTED

Upon completion of this chapter, you will have:

1. Made decisions involving ethical issues and identified and analyzed your reasons for deciding as you did.
2. Discussed the ethical implications of the decisions you made with others and identified how they might affect you, your partners, your customers, and your competitors in the contexts described.
3. Acquired a background, based on history, philosophy, and research, about the nature of business ethics and a context for thinking about ethical behavior.
4. Gained an awareness of the importance of ethical awareness and high standards in an entrepreneurial career.

EXERCISE – ETHICS

In the Ethics Exercise, decisions will be made in ethically ambiguous situations and then analyzed. As in the real world, all the background information on each situation will not be available, and assumptions will need to be made in order to decide.

It is recommended that the Ethics Exercise be completed first – before reading the following material.

Source: *Timmons, Jeffry A. New Venture Creation chapter 9 "Personal ethics and the entrepreneur"; third edition.*

OVERVIEW OF ETHICS

A good number of successful entrepreneurs believe that high ethical standards and integrity are exceptionally important to long-term success.

For example, the author and his colleague, Howard H. Stevenson, conducted a study among 128 presidents/founders attending the Harvard Business School's Owner/President Management Program (OPM) in 1983.[1] Their firms typically had sales of $40 million, and sales ranged from $5 million to $200 million. These entrepreneurs were also very experienced, with the average age in the mid-40s, and about half had founded their current companies. They were asked what the most critical concepts, skills, and know-how for success at their companies were at the time and what they would be in five years. The answer to this question was startling enough that even the Sunday *New York Times* reported the findings: 72 percent of the presidents responding stated that high ethical standards was the single most important factor in long-term success.

Conventional ethical disciplines have been accused of dealing with the business mode by narrowing and defining the scope of inquiry so as to avoid floundering. One author, for instance, *assumed* that "competitors are ethical and engaged in business, rather than jungle warfare."[2]

However, what is ethical and what is not often is not obvious; rather, situations involving ethical issues are often ambiguous. Today, as throughout much of this century, students, business people, and others have received many conflicting signals, as "... first artists and intellectuals, then broader segments of the society, challenged every convention, every prohibition, every regulation that cramped the human spirit or blocked its appetites and ambitions."[3]

This discussion has generated also a lot of controversy. As an example, a provocative and controversial article[4] published in the *Harvard Business Review* asserted that the ethics of business were not those of society but rather those of the poker game. The author of the article argued:

> That most businessmen are not indifferent to ethics in their private lives, everyone will agree. My point is that in their office lives they cease to be private citizens; they become game players who must be guided by a somewhat different set of ethical standards.

The author further argued that personal ethics and business ethics are often not in harmony, and, either by negotiation or compromise, a resolution must be reached. The article provoked a storm of response.

Even the law, which should seemingly be black and white, is full of thorny issues. Laws not only have authority but also limitations. In the first place, laws are made with forethought and with the deliberate purpose of ensuring justice. They are, therefore, ethical in intent and deserve respect. However, laws are manmade, not God-made. Laws do not anticipate new conditions; they do not always have the effect they were intended to have; they sometimes conflict with one another; and they are, as they stand, incapable of making judgments where multiple ethical considerations hang in the balance or seem actually to war with one another. Thus, from the beginnings of recorded history in Egypt and the Middle

[1] Jeffry A. Timmons and Howard H. Stevenson, "Entrepreneurship Education in the 1980s," presented at the 75th Anniversary Entrepreneurship Symposium, Harvard Business School, Boston, 1983. *Proceedings*, pp. 115–34.

[2] Thomas Garrett, *Business Ethics* (New York: Appleton-Century-Crofts, 1966), pp. 149–50.

[3] Derek Bok, "Ethics, the University, & Society," *Harvard Magazine*, May–June 1988, p. 39.

[4] Albert Z. Carr, "Is Business Bluffing Ethical?" *Harvard Business Review*, January–February 1968, pp. 145–52.

East, a "code of laws" was always accompanied by a human "interpreter of laws," a judge, to decide when breaking the letter of the law did not violate the spirit or situation that the law was intended to cover. Great moments in history, religion, philosophy, and literature focus on the legal/ethical dilemma, and debating teams would wither away if the dilemma were to disappear.

ETHICAL STEREOTYPES

The 1980s have become the "Decade of Entrepreneurship" in America and around the world. The United States, now as in the past, is seen as providing an inviting and nurturing climate for those wishing to start their own enterprises and reap the rewards. In part, this is because the federal government has encouraged, to a greater degree than in any other country, an atmosphere under which free market forces, private initiative, and individual responsibility and freedom can flourish. Even such legislation as antitrust laws, laws regulating labor, and the graduated income tax have not hampered the growth of entrepreneurship in America.

These laws, enacted in response to society's changing perceptions of what constitutes "ethical" business practices, have had the equally desirable effect of encouraging those in many industries to develop codes of ethics—in large part because they wished to have the freedom to set their own rules, rather than to have rules imposed on them by Congress.

As the ethical climate of business has changed, so has the image of the entrepreneur. The "good" stereotype is personified by Horatio Alger. The "ruthless" stereotype is represented by entrepreneurs doing business in the unfettered economic climate in the 19th century—the era of the Robber Barons, where acts of industrial sabotage which today we would not condone were common. The battles of James Hill and Edward Harriman over the rights of railroads, the alleged sabotage by John D. Rockefeller of his competitors' oil refineries, the exploitation of child labor in New England's textile mills and of black labor in the southern cotton plantations, and the promoting of "snake oil" and Lydia Pinkham's tonics leave an unsavory aftertaste in the minds of today's more ethically conscious entrepreneurs.

Yet, thoughtful historians of American entrepreneurship will also recall that, regardless of standards by which they are judged or of the motivations attributed to them, certain American entrepreneurs gave back to society such institutions as the Morgan Library and the Rockefeller Foundation. The extraordinary legacy of Andrew Carnegie is another example. (And, of course, these scholars are much more inclined to examine and dissect the ethical behavior of the business sector, rather than that of the clergy, or even of academia itself. In many comparisons, the behavior of the business sector would look quite pure.)

Carnegie's case is also interesting because he described the total change of attitude that came over him after he had amassed his fortune. Carnegie was the son of a Scots weaver and was able personally to amass $300 million in the production of crude steel between 1873 and 1901. As Carnegie himself described, he believed that competition "insures the survival of the fittest in every department," and Carnegie also felt, "The fact that this talent for organization and management is rare among men is proved by the fact that it invariably secures enormous rewards for its possessor."[5] So apparently satisfied was Carnegie with the correctness of his view, he did not try to reconcile it with the fact that effectively British steel rails[6] were excluded by a protective tariff comprising over half the production price of each ton of steel rails. That Carnegie's mind was not easy over his fortune, however, is evident

[5] "Introduction to Contemporary Civilization in the West," *The Gospel of Wealth* (New York: Century, 1900), p. 620.

[6] W. E. Woodward, *A New American History* (Garden City, N.Y.: Garden City Publishing, 1938), p. 704.

from his statement that, "I would as soon give my son a curse as the almighty dollar."[7] After 1901, when he sold Carnegie Steel to United States Steel under pressure from a combine headed by J. P. Morgan, Carnegie personally supervised the giving in the United States and Great Britain of more than $300 million—an amount which is equivalent to many billions in today's dollars. Among his gifts to humanity were over 2,800 libraries, an Endowment for International Peace, and the Carnegie Institute of Pittsburgh.

From today's perspective, the entrepreneurs above might be described as acting in enlightened self-interest. However, when the same sort of entrepreneurial generosity is demonstrated today by such people as Armand Hammer of Occidental Petroleum and An Wang of Wang Laboratories, we are more likely to speak of their acts as philanthropy than as fulfilling their social contract.

Yet, a touch of suspicion still tinges entrepreneurial activity, and the word *entrepreneur* may still connote to some a person who belongs to a ruthless, scheming group located a good deal lower than the angels. In 1975, *Time* suggested that a businessman might make the best-qualified candidate for President but noted the "deep-rooted American suspicion of businessmen's motives."[8] Quoting John T. Conner, chairman of Allied Chemical and former head of Merck and Company, *Time*'s editors added, "Anyone with previous business experience becomes immediately suspect. Certain segments think he can't make a decision in the public interest."[9]

However, in 1988, the prophecy of *Time* was fulfilled when George Bush, an oil entrepreneur, was elected as president of the United States, a revealing conclusion to America's most entrepreneurial decade.

SHOULD ETHICS BE TAUGHT?

More Controversy

Another furor about ethics occurred when *The Wall Street Journal* reported on a course taught at the Harvard Business School by Howard Raiffa on competitive decision making. It was reported that, during simulated negotiating sessions, students in this course were encouraged to use any tactic at all, including lying or making "strategic misrepresentations," in order to "win." It was also reported that the professor teaching the course had stated that "in strategic negotiations . . . it is unfortunately not always true that complete, unadorned open honesty is the best policy."[10]

Again, the protest mail poured into Harvard. Another publication[11] elicited comments from several dozen chief executive officers and professors of business to the leaders of the Girl and Boy Scouts. Sloan K. Childers, vice president of Phillips Petroleum, wrote:

> Even though lying may be categorized as "strategic misrepresentation" it is still lying, and Phillips Petroleum Company does not condone or permit such activity in its operations. The course instructor states that in strategic negotiations it is unfortunately not always true that complete honesty is the best policy. We neither agree with this statement nor permit its implications to be applied by our people. It is our opinion that in business, as in other situations, honesty is always the best policy. I recognize that there are many honest differences of view; however, we do not subscribe to that statement that lying is now an acceptable part of negotiations.[12]

[7] Ibid., p. 622.

[8] "Time Essay: New Places to Look for Presidents," *Time*, December 15, 1975, p. 19.

[9] Ibid., p. 19.

[10] *The Wall Street Journal*, January 15, 1979, p. 1.

[11] Leonard H. Orr, ed., "Is Dishonesty Good for Business?" *Business & Society Review*, Summer 1979, pp. 4–19.

[12] Ibid., p. 12.

However, to view such controversies in either/or terms of lying versus telling the truth is to skirt the discussion of the ethical issues which a business practice, such as negotiation, involves. A more thoughtful appreciation of the study of ethical issues in the course was presented by the dean of the University of Chicago Business School,[13] who wrote:

> In bargaining there often are facts that even the most ethical negotiator will conceal; facts that bear on the strength or weakness of his own position are an example. For this reason, and others, sunshine has proved less attractive in practice than its promise. As to Professor Raiffa's course and the account of it that appeared in *The Wall Street Journal*, I can comment only that newspaper writing does not lend itself readily to expression of subtle or complex ideas. Slightly rearranged, the facts of the article are: in artificially simple, one-time negotiations, students learn that dishonesty may pay; in complicated, repeated negotiations of the sort Harvard graduates often engage in, they learn that honesty often pays better. That lesson would have excited little attention, and consequently would likely not have appeared in *The Wall Street Journal*.
>
> One great advantage of competition is that it provides powerful incentives for ethical behavior even among individuals not so inclined. I have noticed that most businessmen are far less likely to arouse expectations and then not fulfill them than politicians, journalists, clergymen, or university professors.[14]

Ethics Can and Should Be Taught

In an article that examines the ancient tradition of moral education, the decline of moral instruction beginning in the 19th century, and the renaissance of interest in ethics in the 1960s, Derek Bok, president of Harvard University, argues that ethics can and should be taught by educational institutions and that this teaching is both necessary and of value. He states:

> Precisely because its community is so diverse, set in a society so divided and confused over its values, a university that pays little attention to moral development may find that many of its students grow bewildered, convinced that ethical dilemmas are simply matters of personal opinion beyond external judgment or careful analysis.
>
> Nothing could be more unfortunate or more unnecessary. Although moral issues sometimes lack convincing answers, that is often not the case. Besides, universities should be the last institutions to discourage belief in the value of reasoned argument and carefully considered evidence in analyzing even the hardest of human problems.[15]

It is noteworthy that a former chairman of the New York Stock Exchange gave over $20 million to the Harvard Business School to help develop a way to include ethics in the MBA curriculum. Beginning in the fall of 1988, first-year students at the Harvard Business School participated in a unit during the third week totally dedicated to ethics in decision making.

Most entrepreneurs also believe ethics should be taught. In the research project mentioned on page 291, entrepreneurs and chief executive officers attending the Owner/President Management Program (OPM) at the Harvard Business School were asked the question: "Is there a role for ethics in business education for entrepreneurs?" Of those responding, 72 percent said ethics can and should be taught as part of the curriculum. (Only 20 percent said it should not, and two respondents were not sure.)

The most prominently cited reason for including ethics was that ethical behavior is at the core of long-term business success, because it provides the glue that binds enduring successful business and personal relationships together. In addition, the responses reflected

[13] Richard N. Rosett.

[14] Op. cit., "Is Dishonesty Good for Business?" p. 12.

[15] Ibid., p. 50.

a serious and thoughtful awareness of the fragile but vital role of ethics in entrepreneurial attainment and of the long-term consequences of ethical behavior for a business. Typical comments were:

If the free enterprise system is to survive, the business schools better start paying attention to teaching ethics. They should know that business is built on trust, which depends upon honesty and sincerity. BS comes out quickly in a small company.

And:

If our society is going to move forward, it won't be based on how much money is accumulated in any one person or group. Our society will move forward when all people are treated fairly—that's my simple definition of ethics. I know of several managers, presidents, etc., who you would not want to get between them and their wallets or ambitions.

And:

In my experience the business world is by and large the most ethical and law-abiding part of our society.

And:

Ethics should be addressed, considered and thoroughly examined; it should be an inherent part of each class and course . . .; instead of crusading with ethics, it is much more effective to make high ethics an inherent part of business—and it is.

However, these views were not universally held. One entrepreneur who helped to found a large company with international operations warned: "For God's sake, don't forget that 90 percent of the businessman's efforts consist of just plain hard work."

And, there is some cynicism. The 40-year-old head of a real estate and construction firm in the Northeast with 300 employees and $75 million in annual sales said: "There is so much hypocrisy in today's world that even totally ethical behavior is questioned since many people think it is some new negotiating technique."

The Usefulness of Academic Ethics

The study of ethics does seem to have the advantage of making students more aware of the pervasiveness of ethical situations in business settings, of bringing perspective to ethical situations from a distance, and of providing a framework for understanding ethical problems when they arise. Further, the study of ethics has been shown to affect, to some degree, both beliefs and behavior. For example, in a study of whether ethics courses affect student values, value changes in business school students who had taken a course in business ethics and those who did not were examined closely and were plotted across the multiple stages.[16]

The study used a sequence of stages, called the "Kohlberg construct," developed by Kohlberg in 1967. These stages are presented in *Exhibit 9.1.* In the Kohlberg construct, "being moral" in *stage 1* is synonymous with "being obedient," and the motivation is to avoid condemnation. In *stage 2,* the individual seeks advantage. Gain is the primary purpose, and interaction does not result in binding personal relationships. The orientation of *stage 3* is toward pleasing others and winning approval. Proper roles are defined by stereotyped images of majority behavior. Such reciprocity is confined to primary group relations. In *stage 4,* cooperation is viewed in the context of society as a whole. External laws serve to coordinate

[16] David P. Boyd, "Enhancing Ethical Development by an Intervention Program," unpublished manuscript, Boston, Northeastern University, 1980.

Exhibit 9.1
Classification of Moral Judgment into Stages of Development

Stage	*Orientation*	*Theme*
1	Punishment and obedience.	Morality of obedience.
2	Instrumental relativism.	Simple exchange.
3	Interpersonal concordance.	Reciprocal role taking.
4	Law and order.	Formal justice.
5	Legitimate social contract.	Procedural justice.
6	Universal ethical principle.	Individual conscience.

Source: Adapted from Kohlberg (1967).

moral schemes, and the individual feels committed to the social order. One thus subscribes to formal punishment by police or the courts. In *stage 5*, there is acknowledgement that reciprocity can be inequitable. New laws and social arrangements now may be invoked as corrective mechanisms. All citizens are assured of fundamental safety and equality. Cognitive structures at the *stage 6* level automatically reject credos and actions that the individual considers morally reprehensible, and the referent is a person's own moral framework, rather than stereotyped group behavior. Because most of one's fellows endorse a law does not guarantee its moral validity. When confronting social dilemmas, the individual is guided by internal principles that may transcend the legal system. Although these convictions are personal, they are also universal since they have worth and utility apart from the individual espousing them. Kohlberg's final stage thus represents more than mere conformity with state, teacher, or institutional criteria. Rather it indicates one's capacity for decision making and problem solving in the context of personal ethical standards.

In the study, those who took a course in business ethics showed a progression up the ethical scale, while those who had not taken a course did not progress.

A Framework for Analysis

It would be unfortunate if the entrepreneur did not realize his or her potential for combining action with ethical purpose because of the suspicion that the two are unrelated or inimical. There is no reason why they need be considered generically opposed. Nevertheless, the individual can expect no substitute in analyzing ethics for his or her own effort and intelligence.

A good framework for analyzing decisions involving ethical issues is the basis of a course that has been taught at the Harvard Business School by Kenneth E. Goodpaster.[17]

Goodpaster sees ethics for the manager as having dual aspects: that of the internal environment of the organization and that of the external environment of the organization, and he relates ethical transactions to these dual aspects. Thus, in this view, the corporation acts as the moral agent in its external environment in formulating business policy and in implementing that policy. Regarding the second aspect, the corporation is viewed as the moral environment to be managed. Transactions in this environment also involve issues of policy formulation and implementation.

In the course, Goodpaster considers the moral reasoning involved in decision making

[17] Taught as a second-year elective course, "Ethical Aspects of Corporate Policy." The following description of course material is from a course module by Kenneth E. Goodpaster, *Ethics in Management* (Boston: Harvard Business School, 1984), pp. 3–9.

within the context of philosophical ethics. Philosophical ethics is divided into three branches of ethical thinking: descriptive ethics, normative ethics, and metaethics. *Descriptive ethics* describes the values of individuals and groups. *Metaethics* is concerned with the meaning and the ability of ethical judgments to be proved. *Normative ethics* is concerned with criteria for right and wrong.

Normative ethics is divided into two levels—the first being moral common sense, and the second, critical thinking. *Moral common sense* is defined as a set of ethical values, principles, or rules of thumb. These include such ethical values as avoiding harming others, respecting the rights of others, not lying or cheating, keeping promises and contracts, obeying the law, helping those in need, being fair, and so forth, that guide decision making.

It is when items on an individual's moral common sense list conflict or are unclear or when items on one person's list do not agree with those of another person that an individual is forced to a second level of reasoning called "critical thinking." The professor states:

> At this level, the search is for *criteria* that will justify the inclusion or exclusion of common sense norms, clarify their applicability in certain circumstances, and resolve conflicts among them.[18]

Goodpaster presents some normative views of critical thinking. These are called "utilitarianism, contractarianism, and pluralism."

In *utilitarianism*, "moral common sense is to be governed by a single dominant goal: maximizing net expectable utility (or happiness or pleasure or preference or welfare) for all parties affected by a decision or action."[19]

In *contractarianism*, "The central idea is that moral common sense is to be governed not by utility maximization, but by fairness."[20] Fairness, in this view, is defined as "a condition that prevails when all individuals are accorded equal respect as participants in social arrangements."[21]

In what is called "pluralism," the third approach:

> The governing ethical ideal . . . is *duty*. For the pluralists, critical thinking about the first-level duties suggested by our moral common sense leads not to some single outside umpire (such as utility or fairness) but to a more reflective examination of duty itself. One must try to economize on one's list of basic duties, subordinating some to others, relying in the end on one's faculty of moral perception (or intuition or conscience) for the resolution of hard cases.[22]

The professor then states that analysis can then be guided by:

- Deciding whether there are ethical issues involved in a particular set of circumstances.
- Deciding whether they involve the internal or external environment of the company.
- Deciding the best courses of action to: (1) maximize utility, (2) achieve fairness, and (3) agree with duty.
- Analyzing the conflicts that exist between the courses of action.
- Deciding which course of action should override the others.
- Deciding if all ethically relevant considerations have been considered.
- Making a decision or devising an action plan.

[18] Ibid., p. 7.
[19] Ibid., p. 7.
[20] Ibid., p. 7.
[21] Ibid., p. 7.
[22] Ibid., p. 7.

Ethical Quicksand

It is worth noting that the above goal of utilitarianism is stated as maximizing utility for *all parties* affected by a decision or action. It is not a goal of maximizing the utility of the agent only. Believing that it is the agent's utility alone that should be maximized is a "quicksand" for some entrepreneurs. Further, a related notion that "the ends justify the means" is, for some, an irresistible temptation to rationalize nearly any behavior. It is not hard to argue that the Wall Street insider trading scandals of the 1980s, involving Ivan Boesky and Drexel Burnham's Michael Milken, were anchored in a mistaken "situational" view toward ethics.

THORNY ISSUES FOR ENTREPRENEURS

Action under Pressure

During an entrepreneurial career, an entrepreneur will have to act on issues under pressure of time and when struggling for survival. In addition, the entrepreneur will most likely decide ethical questions that involve obligations on many sides—to customers, employees, stockholders, family, partners, himself, or a combination of these. Walking the tightrope and balancing common sense with an ethical framework is precarious.

As a way to cope with the inevitable conflicts an entrepreneur will encounter, a first step is developing an awareness of his or her own explicit and implicit ethical beliefs, those of his or her team and investors, and those of the milieu within which the company competes for survival.

And, as the successful entrepreneurs quoted above believe, in the long run, succumbing to the temptations of situational ethics will, in all likelihood, will result in a tumble into the quicksand, not a safety net—just ask Ivan Boesky.

An appreciation of this state of affairs is succinctly stated by Fred T. Allen, chairman and president of Pitney-Bowes:

> As businessmen we must learn to weigh short-term interests against long-term possibilities. We must learn to sacrifice what is immediate, what is expedient, if the moral price is too high. What we stand to gain is precious little compared to what we can ultimately lose.[23]

Different Views

Different reactions to what is "ethical" may explain why some aspects of venture creation go wrong, both during start-up and in the heat of the battle, for no apparent reason. Innumerable examples can be cited to illustrate that broken partnerships often can be traced to apparent differences in the personal ethics among the members of a management team. So, too, with investors. While the experienced venture capital investor seeks entrepreneurs with a reputation for integrity, honesty, and ethical behavior, the definition is necessarily subjective and depends in part on the beliefs of the investor himeself and in part on the prevailing ethical climate in the industry sector in which the venture is involved.

Problems of Law

For entrepreneurs, there are increasingly frequent situations where one law directly conflicts with another. For example, a small-business investment company in New York City became involved in serious financial trouble. The Small Business Administration stated that the company should begin to liquidate its investments, because it would otherwise be in

[23] Letter to the Editor, *The Wall Street Journal*, October 17, 1975.

defiance of its agreement with the SBA. However, the Securities and Exchange Commission stated that this liquidation would constitute unfair treatment of stockholders, due to resulting imbalance in their portfolios. After a year and a half of agonizing negotiation, the company was able to satisfy all the parties, but compromises had to be made on both sides.

Another example of conflicting legal demands involves conflicts between procedures of the Civil Services and the Fair Employment Practice Acts. The code states that hiring will include adherence to certain standards, a principle that was introduced in the last century to curb the patronage abuses in public service. Recently, however, the problem of encouraging and aiding minorities has led to Fair Employement Practice Acts, which require the same public agencies that are guided by Civil Service standards to hire without prejudice, and the requirement that a given test shall serve as the criterion of selection. Both these laws are based on valid ethical intent, but the resolution of such conflicts is no simple matter.

Further, unlike the international laws governing commercial airline transportation, there is no "international code of business ethics." When doing business abroad, entrepreneurs may find that those with whom they wish to do business have little in common with them—no common language, no common historical context for conducting business, and no common set of ethical beliefs about right and wrong and everything in between. For example, in the United States, bribing a high official to obtain a favor is considered both ethically and legally unacceptable; in parts of the Middle East, it is the only way to get things done. What we see as a "bribe," those in parts of the Middle East see as a "tip," like what you might give the headwaiter at a fancy restaurant in New York for a good table.

"When in Rome . . ." is one approach to this problem. Consulting a lawyer with expertise in international business before doing anything is another. And, assuming that the object of an entrepreneur's international business venture is to make money, he or she needs to figure out some way that is legally tolerable under the codes of laws which do apply and which is ethically tolerable personally.

Examples of the Ends-and-Means Issue

A central question in any ethical discussion concerns the extent to which a noble end may justify ignoble means—or whether using unethical means for assumed ethical ends may not subvert the aim in some way. As an example of a noble end, consider the case of a university agricultural extension service whose goal was to aid small farmers to increase their crop productivity. The end was economically constructive and profit-oriented only in the sense that the farmers might prosper from better crop yields. However, to continue being funded, the extension service was required to provide predictions of the annual increase in crop yield it could achieve, estimates it could not provide at the required level of specificity. Further, unless it could show substantial increases in crop yields, its funding might be heavily reduced. In this case, the extension service decided, if need be, to fudge the figures since it was felt that, even though the presentation of overly optimistic predictions was unethical, the objectives of the persons running the organization were highly ethical and even the unethical aspects could be condoned within the context of the inability of the various groups involved to speak each other's language clearly. The fact that the funding source finally backed down in its demand ameliorated the immediate problem. But if it had not, certainly a danger existed that the individuals in this organization, altruistic though their intentions were, would begin to think that falsification was the norm and would forget that actions that run contrary to one's ethical feelings gradually would build a debilitating cynicism.

Another example is given in the case of a merger of a small rental-service business with a middle-sized conglomerate, where a law's intent was in direct opposition to what would occur if the law were literally enforced. In this case, a partner in the rental firm, shortly before the merger, had become involved in a severe automobile accident, suffered multiple injuries,

and was seemingly unable to return to work. The partner also knew that the outlook for his health in the immediate future was unpredictable. Under these circumstances, he was eager, for the sake of his family, to seek some of the stock acquired in the merger and make a large portion of his assets liquid. However, federal law does not allow quick profit taking from mergers and, therefore, did not allow such a sale. The partner consulted the president and officers of the larger company, and they acquiesced in his plans to sell portions of his stock and stated their conviction that no adverse effect on the stock would result. Still unsure, the man then checked with his lawyer and found that the federal law in question had almost never been prosecuted. Having ascertained the risk and having probed the rationale of the law as it applied to his case, the man then sold some of the stock acquired in the merger, in order to provide security for his family in the possible event of his incapacitation or death. Although he subsequently recovered completely, this could not have been foreseen.

In this instance, the partner decided that a consideration of the intrinsic purpose of the law allowed him to act as he did. In addition, he made as thorough a check as possible of the risks involved in his action. He was not satisfied with the decision he made, but he felt that it was the best he could do at the time. One can see in this example the enormous ethical tug of wars that go with the territory of entrepreneurship.

An Example of Integrity

That entrepreneurial decisions are complicated also is illustrated in the following example. At just age 27, an entrepreneur joined a new computer software firm with sales of $1.5 million as vice president of international marketing of a new division. His principal goal was to establish profitable distribution for the company's products in the major industrialized nations. Stock incentives and a highly leveraged bonus plan placed clear emphasis on profitability, rather than on volume. In one European country, the choice of distributors was narrowed to 1, from a field of over 20. The potential distributor was a top firm, with an excellent track record and management, and the chemistry was right. In fact, the distributor was so anxious to do business with the entrepreneur's company that it was willing to accept a 10 percent commission, rather than the normal 15 percent royalty. The other terms of the deal were acceptable to both parties. In this actual case, the young vice president decided to give the distributor the full 15 percent commission, in spite of the fact that it would have settled for much less. This approach was apparently quite successful because, in five years, this international division grew from zero to $18 million in very profitable sales, and the venture was acquired by a large firm for $80 million. In describing his reasoning, the entrepreneur said his main goal was to create a sense of long-term integrity. He said further:

> I knew what it would take for them to succeed in gaining the kind of market penetration we were after. I also knew that the economics of their business definitely needed the larger margins from the 15 percent, rather than the smaller royalty. So I figured that if I offered them the full royalty, they would realize I was on their side, and that would create such goodwill that when we did have some serious problems down the road—and you always have them—then we would be able to work together to solve them. And that's exactly what happened. If I had exploited their eagerness to be our distributor, then it only would have come back to haunt me later on.

ETHICS EXERCISE REVISITED

The following statements are often made, even by practicing entrepreneurs: "How can we think about ethics when we haven't enough time even to think about running our venture?" *And:* "Entrepreneurs are doers, not thinkers—and ethics is too abstract a concept to have any bearing on business realities." *And:* "When you're struggling to survive, you're not worried about the means you use—you're fighting for one thing: survival."

However, the author feels that the contemplation of ethical behavior is not unlike poetry—emotion recollected in tranquility. This chapter is intended to provide one such tranquil opportunity.

Through the decisions actually made, or not made, an individual could become more aware of his or her own value system and how making ethical decisions can be affected by the climate in which these decisions are made. However, in the exercise, participants were asked only to answer questions. They were not being asked to carry out an action. Between intent and action lies a large gap, which can only be filled by confronting and acting in a number of ambiguous situations.

BUSINESS HUMAN RELATIONS SITUATION

Two cases of canned sardines are found at the garbage dump. The expiration date has not expired. Should I take them and sell them in the store? If so, at what price?

DISCUSS BASED ON: Personal Values
Customer Relations

BUSINESS HUMAN RELATIONS SITUATION

The wholesaler gives you an opportunity to sell television sets imported from West Germany at a big discount. The wholesaler says the discount was given because after a certain amount of hours the picture gets snowy. The wholesaler also points out that the fault will probably not appear until after the warranty expires. Should the customer be told about the problems? Should you tell your sales people about the problem? If yes, how will you instruct the sales person to explain the big discount? What problems might happen?

DISCUSS BASED ON: Personal Values
Customer Relations
Employee Relations

BUSINESS HUMAN RELATIONS SITUATION

You operate a small cafe which closes at 8:00 p.m. A customer comes in to order a full meal at 7:30 p.m. Should they not be served? Should they be told that they will be served but that the food will be cold, because employees will not be asked to stay late.

DISCUSS BASED ON: Customer Relations
Employee Relations
Cost Factors

BUSINESS HUMAN RELATIONS SITUATION

Your store never opens on Saturday and Sunday, but many of the stores in your area open for tourist trade especially at Christmas time. Should you conform and open like other stores?

DISCUSS BASED ON: Personal Values
Customer Service
Employee Issues

BUSINESS HUMAN RELATIONS SITUATION

Your gross sales for a month are $5,000. You only have receipts for $2,500. Will you account for the other $2,500 or forget about it when reporting taxes? If you decide to report it will you make up receipts?

DISCUSS BASED ON: Personal Values

BUSINESS HUMAN RELATIONS SITUATION

A merchandise order of candy bars melted in shipment. The supplier instructed you to destroy and there would be no charge for the shipment. Should we destroy the stock? Should we put the stock on the shelf at regular price? Should the stock be put on the shelf at a reduced price?

DISCUSS BASED ON: Personal Values
Customer Relations

PERSONALITY EVALUATIONS

D DOMINANCE	I INFLUENCING	S STEADINESS	C COMPLIANCE
What questions	Who questions	How questions	Why Questions
Quick	Social	Patient	Perfectionist
Take Leadership	Popularity	Good Listener	Cautious
People Mover	Enthusiastic	Loyal	Conscientious
Forceful	Entertaining	Calms People	Thinker
Open Body-Language	Group Involvement	Not a Risk Taker	Organized
Likes Power	Helps People	Safety Seeking	Complys w/Authority
Likes Authority	Recognition Seeker	Likes Security	Accuracy
Likes Change	Fast Talker	Doesn't Like Change	Everything in place
Spontaneous	Open Body Language	Want close relationships	Great Planner
Causes Action	Impulsive	Peace keepers	Factual, picky
Gives Direct Answers	Interacting	Doesn't make Decisions	Need results
Wants Direct Answers	Likes Self	Slower talking	Do it now!
Demanding	Creative	Cooperative	Outline Thoughts
Directing	Decisions on Emotion	Team Player	Limited Self-Disclosure
Don't quit		Controlled Body Language	Rational Decisions
Play to win		Lasting Relationships	
			Over do problem solving
Blunt	Disorganized	Gets even	Not Trusting
Impatient	Not factual	Feelings Hurt Easily	Expects high standards
Relatinships suffer	Talkative	Easy to change	Hold feelings in
Not lot of close friends	Ready, Fire, Aim	'Push over'	Distant
Health suffers	Not concerned with detail		Formality
			Hard to read
Stock brokers	Sales	Helping Occupations	Accountants
Top Executives	Arts	Nurses	Engineers
Newspaper Reporters	Performing Arts	Social Workers	Exacting Professions
	Public Relations	Counseling	
	'People' Business	Teaching	

COMPUTERS AND A SMALL BUSINESS

UNIT 7

Title: **COMPUTERS AND A SMALL BUSINESS**

Purpose: This unit is designed to provide some information about opportunities of using computers in a small business.

Objectives: Upon completion of this unit, the participant will learn about:

- a basic computer configuration
- *DOS* Operating System
- Word Processors *CHIWRITER* and spreadsheet
- specialized applied systems used in small businesses

Materials:

Transparency 7-1	Basic Computer Configuration
Transparency 7-2A/B	Characteristic of a Diskette and Hierarchical Structure of Directories on a diskette
Transparency 7-3	Elements of Disk Operating System *DOS*
Transparency 7-4	*DOS* Operating System Functions
Transparency 7-5	Basic Commands of the *DOS* Operating System
Transparency 7-6	The Use of a Word Processor
Transparency 7-7	Characteristic of *CHIWRITER* Word Processor
Transparency 7-8	Characteristic of Basic Commands of the Word Processor *CHIWRITER*
Transparency 7-9	The Use of Spreadsheet *LOTUS 1-2-3*
Transparency 7-10	Basic Functions of *LOTUS 1-2-3*
Transparency 7-11	Specialized Applied Systems
Transparency 7-12	Subsystems of *SEKretariat* System
Transparency 7-13	Standard Configuration of Microcomputer IBM - XT/AT/386/486
Handout 7-1	Computer Standard of The IBM PC Class
Handout 7-2	Elements of the PC *DOS* Operating System
Handout 7-3	Word Processors as a Tool of Computerized Text Processing
Handout 7-4	General Characteristics of the *CHIWRITER* Word Processor
Handout 7-5	Characteristics of the Word Processor's Commands
Handout 7-6	Spreadsheet *LOTUS 1-2-3*
Handout 7-7	Specialized Applied Systems
Handout 7-8	*SEKretariat* System - Structures and Functions

UNIT 7

Computers and a Small Business

CONTENT	PROCESS
A. Ways of using computers in a small business:	
1. Basic information for those who want to use computers in running a small business: - computers producers - types of computers - advantages and disadvantages of using computers.	Present commonly used models of IBM computers (XT, AT, 286, 386, 486).
2. Components of a computer system: - a screen monitor - a central unit - a keyboard - types and structure of floppy disks - types of printers	Present TP7-1: Basic Computer Configura-tion which shows the basic computer's set. Distribute HO7-1: Computer Standard of the IBM PC Class and allow the participants to read for a while. Present TP7-2A i B: Characteristic of a Diskette and Hierarchical Structure of Directories which will give the participants more information about organizational structure of a diskette.
3. Elements of Disk Operating System *DOS*: - structure of the operating system - starting the system up - functions of some keys in the *DOS* program - organization of files on the disk-names, directories - the *DOS* functions realized on the files and directories: - preparation of the diskette for operation-formatting	Present TP7-3. Describe basic elements of Disk Operating System *DOS*. Conduct exercises presented in HO7-2 which will help the participants to understand the idea of the System. Provide the participants with HO7-2 for later reading. Present TP7-4: *DOS* Operating System Functions.

CONTENT	PROCESS
- servicing the disk directories - copying of files - comparison and restoring of disk files - displaying and printing of disk files - other operations on files - basic commands of the *DOS* system	Present TP7-5: Basic Commands of The *DOS* Operating System.
B. Word Processors as a tool of computerized text processing	Present TP7-6: The Use Of a Word Processor.
The major area of application of a word processor: 1. insertion and elimination of any fragments of the text 2. change of position of any parts of text 3. automatic replacement of some words with others 4. duplication of text or its part desired number of times 5. merging of text 6. automatic numbering of pages and introduction of predetermined head and foot marks 7. identification of frequently repeated parts of texts for their later automatic application 8. preparation of files of databases in the ASCII codes for other software packages.	Distribute HO7-3: Word Processors as a Tool of Computerized Text Processing.

CONTENT	PROCESS
C. General characteristic of the *CHIWRITER* Word Processor:	Present TP7-7: Characteristic of the *CHIWRITER* Word Processor. Distribute HO 7-4 which describes the word processor in details.
1. General information about *CHIWRITER* Word Processor which was developed by the Horstmann Software Design Corporation.	
2. Recalling the program	
3. The window of the word processor: a. status line b. tabulator line c. index line d. area of the text	Present how to use "index line" and after that ask the participants to type some texts by themselves.
4. Characteristics of basic commands of the *CHIWRITER:* - MARK - LAYOUT - SCREEN - DELETE - READ - WRITE - PRINT - ENVIRONMENT - QUIT - HELP	Present TP7-8: Characteristic of Basic Commands of the Word Processor *CHIWRITER* and provide participants with HO7-5 which tells more what the particular commands enable them to do.
D. Using Spreadsheet *LOTUS 1-2-3*	Present TP7-9: The Use of Spreadsheet *LOTUS 1-2-3* and distribute HO7-6.
1. Basic functions performed by LOTUS 1-2-3: • preparation of the array and making all necessary calculations • printing the whole or part of	Present TP7-10: Basic Functions of *LOTUS 1-2-3.*

CONTENT	PROCESS
the array • preparation and printing of the graph. 2. Debugging 3. Worksheet 4. Moving over the sheet. 5. Data entering: - numbers - character series - formulas 6. Changing the sheet entry 7. Calculations 8. Essential organizational operations: - memorizing the sheet on a disk - regaining the sheet from the disk - sheet printing - graphic illustration of results.	
E. Management Information Systems. 1. Presentation of specialized applied systems: - finance and accountancy - material management - wages and personnel - automatization of office work - Sales and Order - Technical Preparation of Production - Transport	Present TP7-11: Specialized Applied Systems and provide the participants with HO7-7. Present examples of chosen systems, e.g.: - ledger - sales - wholesaler - accounting

CONTENT	PROCESS
2. The *SEKretariat* System and its subsystems: - CORRESPONDENCE - DECISION - AGENDA - NOTE BOOK	Present TP7-12: Subsystems of *SEKretariat* System and distribute HO7-8 which discribes structures and functions of particular sub-systems.
3. Operation of the *SEKretariat* System.	Demonstrate how to operate the *SEKretariat* System.
4. Equipment and software needed to run the *SEKretariat* System:	Present TP7-13: Standard Configuration of Microcomputer IBM - XT/AT/386/486. Provide the participants with HO7-9.

BASIC COMPUTER CONFIGURATION

Screen Monitor:
Monitor: Monochronic or Color

SCREEN MONITOR

Memory capacity:
B: Byte
KB: Kelobyte
MB: Megabyte
KB= 10,243
MB= 1,024 KB

CENTRAL UNIT

Read Only Memory (ROM)
(starting program BIOS)

Random Access Memory (RAM)
640 KB Noteped Memory
16 MB Memory XMS

C Hard Disk
20 MG and more

Clock Generator

Arithmetic Coprocessor
(e.g. 80287 INTEL)

Processor
(e.g. 80287 INTEL)

A Floppy Disk Drive
1,2 MB

B Floppy Disk Drive
360 KB

Adjustable Volume Loudspeaker

Computer Graphic Card
(e.g. HERCULES)

Printer Card

Keyboard Card

Cards Extending the Microcomputer functions

Feeder

KEYBOARD

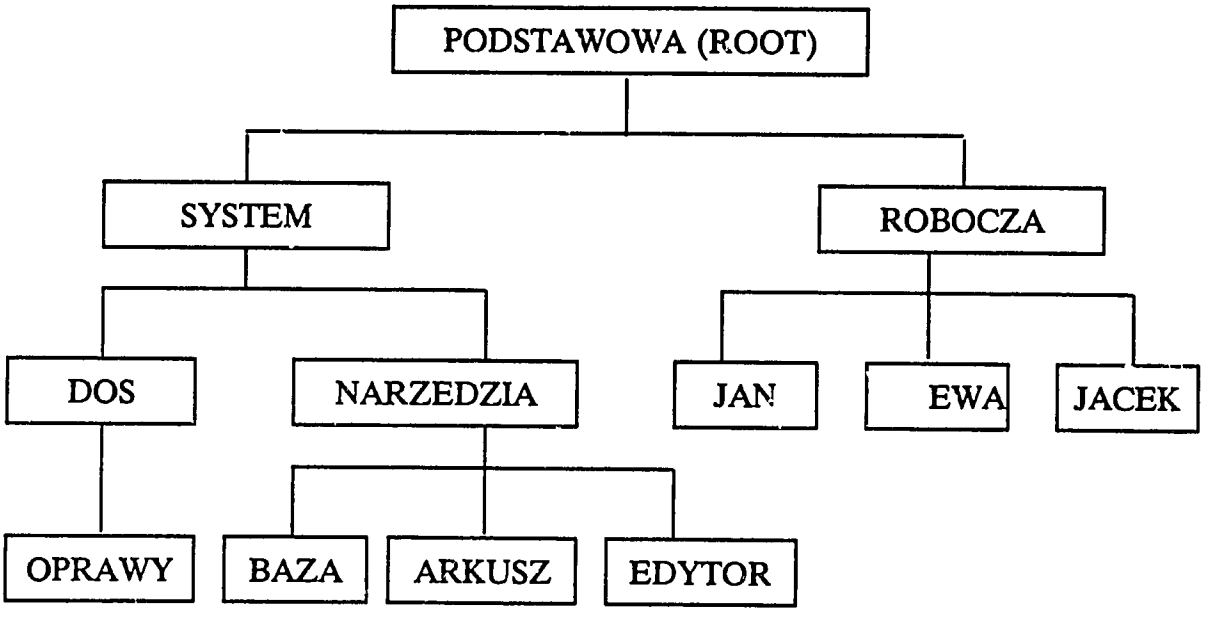
(e.g. Qwerty)

CHARACTERISTIC OF DISKETTE AND ITS STRUCTURE

DISKETTE 5.25"		
Standard data:		
Capacity	360 KB	1.2MB
The Number of Tracks	40	80
The number of Sectors	9	15
Sector Capacity	512 B	512 B
Sector Part	12	29
Trade Marks	2S/DD	2S/HD
Tracks/inch	48 tpi	96 tpi

DISKETTE 3.5"			
Standard data:			
Capacity	720 KB	1.44 MB	2.88 MB
The Number of Tracks	80	80	80
The number of Sectors	9	18	36
Sector Capacity	512 B	512 B	512 B
Sector Part	14	33	?
Trade Marks	DD	HD	?
Tracks/inch	135 tpi	135 tpi	135 tpi

HIERARCHICAL STRUCTURE OF DIRECTORIES ON A DISK



ELEMENTS OF DISK OPERATING *DOS* SYSTEM

- STRUCTURE
- STARTING THE SYSTEM UP
- FUNCTIONS OF SOME KEYS
- ORGANIZATION OF FILES ON THE DISK:
  - NAMES
  - DIRECTORIES
- FUNCTIONS OF *DOS* REALIZED ON FILES AND DIRECTORIES
- BASIC COMMANDS OF THE SYSTEM

DOS OPERATING SYSTEM FUNCTIONS

- Preparation of a Diskette for Operation-Formatting
- Servicing the Disk Directories
- Copying of Files
- Comparing and Restoring of Disk Files
- Displaying and Printing
- Other Operations:
  - removing files from a disk
  - changing a name of the file
  - selecting data

BASIC COMMANDS OF *DOS* OPERATING SYSTEM

- CHDIR
- COPY
- DATE
- DIR
- ERASE
- FORMAT
- MKDIR
- PATH
- PRINT
- RENAME
- TYPE

THE USE OF A WORD PROCESSOR

- INSERTION AND ELIMINATION OF ANY PART OF A TEXT
- CHANGING THE POSITION OF ANY PART OF A TEXT
- AUTOMATIC REPLACEMENT OF SOME WORDS WITH OTHERS
- DUPLICATION OF A TEXT OR ITS PART DESIRED NUMBER OF TIMES
- MERGING A TEXT
- AUTOMATIC PAGE NUMBERING, INTRODUCING PREDETERMINED HEAD AND FOOT MARKS
- PREPARATION OF DATABASES IN THE ASCII CODES FOR OTHER SOFTWARE PACKAGES

CHARACTERISTIC OF THE *CHIWRITER* WORD PROCESSOR

1. RECALLING THE PROGRAM

2. THE WINDOW OF THE WORD PROCESSOR

   A/ STATUS LINE

   B/ TABULATOR LINE

   C/ INDEX LINE

   D/ AREA OF THE TEXT

CHARACTERISTIC OF BASIC COMMANDS OF THE WORD PROCESSOR *CHIWRITER*

MARK	— highlighting of text blocks
LAYOUT	— arranging layout of the text
SCREEN	— screen operations on the text
DELETE	— elimination of information
READ	— reading information from disk
WRITE	— writing information on disk
PRINT	— printing
ENVIRONMENT	— configuration of editing parameters
QUIT	— return onto the operating system level
HELP	— helping information about meaning of command

THE USE OF SPREADSHEET

LOTUS 1-2-3

- BASIC FUNCTIONS
- DEBUGGING
- WORKSHEET
- MOVING OVER THE SHEET
- DATA ENTERING
- CHANGING THE SHEET ENTRY
- CALCULATIONS
- OPERATIONS

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BASIC FUNCTIONS OF *LOTUS 1 - 2 -3*

- ARRAY PREPARATION AND MAKING NECESSARY CALCULATIONS
- PRINTING ARRAY
- PREPARING AND PRINTING GRAPHS

SPECIALIZED APPLIED SYSTEMS

- FINANCE AND ACCOUNTANCY
- MATERIAL MANAGEMENT
- WAGES AND PERSONNEL
- AUTOMATIZATION OF THE OFFICE WORK
- SALES AND ORDERS
- TECHNICAL PREPARATION OF PRODUCTION
- TRANSPORT

SUBSYSTEMS OF *SEKretariat* SYSTEM

- CORRESPONDENCE
- DECISION
- AGENDA
- NOTE BOOK

STANDARD CONFIGURATION OF MICROCOMPUTER IBM - XT/AT/386/486

- OPERATING MEMORY
- HARD DISK
- COLOR AND MONOCHROMATIC GRAPHICS
- DOT PRINTER 15"

COMPUTER STANDARD OF THE IBM PC CLASS

Microcomputer Configuration

The basic set of an IBM PC is composed of the central unit, a keyboard, screen monitor and a printer (fig. 1). The central unit is made of electronic system located on a system board (main board) (it contains a microprocessor, memory, and a control unit) as well as disk memory units with drives, usually two floppy disk drives and one hard disk, a supply system with a fan and exchangeable cards extending the microcomputer functions (e.g., graphic cards, additional memory, data transmission in a network, etc.).

The following elements are located on the system board:

1. a 16 or 32 byte microprocessor
2. arithmetic coprocessor (optional)
3. 1-16 MB Random Access Memory (RAM)
4. Read Only Memory (ROM)
5. Notepad memory (cache)—64-256 kB
6. Slots for 5-8 extension cards
7. Programmable timer with battery support
8. 8-50 MHz clock generator
9. 8 Ohm adjustable volume loudspeaker
10. Other controlling systems (e.g., coupling for coordination of the exchange of information with some internal elements, a system controlling breaks).

With the IBM PC microcomputer family one can distinguish the following models (the difference between them stems from the difference between the microprocessor used in them): PC/ST (INTEL 8086), PC/At (INTEL 80286), PC/386, PC/486. Parallelly with the extension of the INTEL microprocessor the processing speed, the capacity of RAM and ROM increase. It means in practice the possibility of performing more and more complex calculations in multiaccess and network systems and storing a great amount of data on the disk.

The IBM class computers are equipped with a 20-720 MB hard disk memory (depending on the processing power of the computer) and floppy disk memories of the 5.25" standard (1.2 MB) or of the 3.5" standard (1.44 MB). A standard set contains two floppy disk drives marked a: and b: and one hard disk marked c: (or c:, d:, etc.) if it is a large disk divided into partitions.

Equipment extensions

Screen monitors and graphic cards

The quality of image displayed on the screen depends on the class of monitor used and resolution of the graphic card coupled with it. One has to stress here close relation between the graphic card of the microcomputer with the monitor displaying the image. The most often offered graphic card are the following (the maximum resolution of screen has been given in parentheses).

1. CGA, color card (640*200)
2. Hercules, monochromatic card (720*348)
3. CGA/Hercules (CGA + Hercules)
4. EGA, color card (640*350)
5. Super EGA, color card (640*480)
6. HEGA (Hercules + EGA)
7. VGA, color card (800*600)
8. Super VGA (SVGA), color card (1024*768)

The right resolution graphic cards are indispensable in computer aided design (CAD) systems and in systems where the graphic presentation of data is important.

Mass memories

In order to secure oneself against loss of data, e.g., in case of the hard disk failure, one has to use backup devices (streamers), which allow to store the whole capacity of the hard disc on a special cassette with magnetic tape.

Coprocessor

In case of frequent utilization of microcomputer for mathematical-engineering calculations, the coprocessors play important role in acceleration of calculations. They are

optional modules in the microcomputer set. Thanks to their specialized architecture, the floating point operations are performed 50-100 times faster. However, the qualities of the coprocessor may be utilized thanks to suitable software (available, for instance, in the Fortran language).

Printers

The printer is a basic output device in the microcomputer systems. While selecting the printer one has to take into consideration specific character of prints of the exploited computer system, in particular its following characteristics:

1. Maximum width of printed materials
2. printing speed
3. need for graphic presentation
4. available print quality

In the microcomputer systems the dot matrix printers are most frequently used. In such printers a set of needles—(microhammers) press a carbon tape against the paper. The print quality depends on the number of needles in vertical dimension. The greater the number of needles (dots) in the character matrix, the more the printed character resembles a hand written or a typewritten sign, and not a very difficult-to-read letter composed of a great number of dispersed dots. High-class printers are able to assure near letter or letter quality. The nine or 24 dot printers are most frequently used.

Another important feature a printer is the width of the platen (and thus the width of the paper used for printing). We can usually find two types of printers: 10 inch (254 mm) and 15 inch (381 mm) printers. The number signifying the length of the platen is given in the name of the printer, e.g., Star NL 10, Star SG 15.

The printing speed of contemporary matrix printers amounts to 100-500 characters per minute. This speed is usually given for the normal quality of print, for enhanced quality if is 3-5 times smaller.

A completely different higher class devices are the laser printers. They allow to make professional quality prints (for publication-edition purposes) in the full scope of text and graphic printing.

Nonstandard Input-Output Devices

To enter the graphic data the position readers are used, these are devices which change the location of the sensing elements into number coordinates. They are then read by the service programs and visualized on the monitor screen. Among simple devices of this kind one finds a joystick, a mouse, a light pen. A more precise device's is the graphic table (digitizer). The sensing elements, most often a magnifying glass with a view finder is passed over a picture or a map, and the coordinates of it's are transmitted to the computer.

The output device that is used for the presentation of graphic images is a plotter. Plotter allows to create complex, black and white as well as color pictures and graphs of different size and quality. The basic element of a plotter is a computer controlled arm with (a number of pens) moving over the paper, carbon paper or transparency which draws the programmed graphic image. The quality and accuracy of the plotter operation (and price related to it) depends on the exploitation parameters of the plotter such as:

1. Number of addressable steps possible to be performed on the length of one inch (from 500 to 1000).
2. Resolution, i.e., accuracy of drawing of closed curves.
3. Drawing speed (from 4 to 15 inches per second)
4. Size of the drawing (A0, A1 ... A4)
5. Availability of color

THE ELEMENTS OF THE PC DOS OPERATING SYSTEM

Structure of the Operating System

The operating system is a set of programs with the help of which the most important controlling functions of the computer set are performed, like the following:

- control of execution of one or several different programs (in multitask systems)
- servicing of the dialogue with the user
- access to basic and instrumental software
- management of the random access memory organization of the virtual memory
- controlling the operation of external devices and external memory
- organization of the structure of files in the external memory
- control of correctness of operation of the computer set and informing the user about equipment and software failure
- securing the protection of access to the computer
- organization of multiaccess or network operation.

The most popular operating system, applied generally in the IBM PC class computers is the MS DOS offered by the American Microsoft Company (version from 3.** to 5.**). The DOS system is composed of a number of programs (files) operating either in RAM or located on the hard disk.

An important role in the system play the so-called hidden files, i.e., those which are not displayed while reading the directory after applying the DIR command. The IBM-DOS.COM program manages the operations realized on the disk files and the cooperation with the users programs. The IBMBIO.COM realizes the input/output operations and communication between memories and peripherals.

The third basic file of the operating system is the COMMAND COM. It is called the command processor; its job is to quickly identify and execute basic internal commands transmitted from the keyboard and execution of programs recalled by the user.

A distinct module of the operating system are the external commands (programs), executing various operations required by the user. These program are stored on the hard

disk or on the system disk. Subsequent version of the MS DOS are extended by new external commands located most often on the disk in the DOS directory.

Thus the MS DOS commands may be divided into internal ones, performed at once by the command processor and external ones, requiring the execution of extension program [.COM or .EXE] located in the DOS directory.

Starting the System up

After switching the computer on it executes an attempt to read an operating system from the a: diskette. If the computer has a hard disk c: and station a: is open, then the operating system is read from c: (it has to be installed on the disk in advance). After starting the system usually the current date is being entered in the form of mm/dd/yy (month, day, year) and current time in the form of hours;minutes;seconds;hundredths of second. If the computer is equipped with a battery-supported clock these parameters may only be displayed for periodical checkup of time and date. While initiating the MS-DOS operation, two files are automatically executed; these are: AUTOEXEC.BAT and CONFIG.SYS. They have to be located in the main directory of the system. The AUTOEXEC.BAT program usually contains those MS.DOS orders that we have to be executed every time after switching the system on (e.g., TIME, DATE, PROMPT, PATH). During actual operation of the MS-DOS system quite frequently the need appears to reinitiate the system in case of some failure. One has then to simultaneously press the following keys: Ctrl+Alt+Del. In case of no response (the so-called cutting out of the keyboard) the only solution is to press the RESET key on the front wall of the computer and if there is not such key one has to switch the computer off and switch it on after some time.

Meaning of Some Keys in the DOS Program

In PC class systems the QWERTY keyboard is usually installed (its name is derived from the first 6 character keys), containing 84 (in case of XT computers) or 101 (in case of

AT' computers) keys. The most important functional keys interpreted by the MS-DOS system are listed below.

Key	Realized function
Enter	End of entering a line
Shift	Capital letters or signs located in the upper part of the key
CapsLock	Locks the capital or small letters
<--	Shifts the cursor back and deletes one character
Esc	Deletes the content of line entered till now
Ctrl + Num Lock	Stops the display on the screen, pressing any key continues display
Ctrl + Break	Breaks the execution of a command
Shift + Break	Transmits the content of the screen onto the printer
Ctrl + Prtsc	Sets or deletes parallel printing of displayed information
Ctrl + Enter	Physical end of line (useful if one enters commands having more then 80 characters)
Ctrl + Alt + Del	Reinitation of the system (hot start)
F1 lub -->	Copies the subsequent character of a scheme to the input buffer and displays it
F3	Copies all the remaining characters of the scheme and displays them (renewed entering of a command)
Del	Passes over the text character of scheme to be copied
Ins	Enables insertion of characters

Organization of Files on the Disk—Names, Directories

The information on the disk is stored in files. Each disk files has its name. The name of file is made of the proper name and an extension separated with a dot ([.ext]). The proper name may be made of up to 8 alphanumerical characters (the name cannot be ignored and cannot contain a space or a comma). The extension may contain up to 3 alphanumerical characters. It defines the basic character of the file, e.g.:

— *.EXE and *.COM define the resultivy version files, they may be users' programs or the MS-DOS commands,

— *.BAS means a source program edited in the BASIC language,

— *.PAS means a source program edited in the PASCAL language,

— *.BAT means an insertion file,

— *.DBF means a base file for dBASE III/IV,

— *.CHI means a file of the CHiwriter word processor,

— *.BAK means the former version of the original file.

In the file names and then extensions the so-called global signs, like "*" and "?" may appear. We then speak of the generalized name of the file. The "*" sign means that from the position in which the name of the file appears, one can apply any characters.

Examples:

DIR *.BAT — display of information about all files with the BAT extension.

DIR TURBO*.* — display of information about all files whose name starts with TURBO.

ERASE *.* — elimination of all files from the directory.

The "?" sign means that at the position where it is located any signs may be placed (it replaces any other sign). Both global signs may be used together.

Examples:

DIR ""GROUP.TXT — display of information about files, whose name is ended with GROUP logo and starts with any two characters, and having the TXT extension.

ERASE GR_??_AE.* — delete all files whose names correspond to the specific name and which may have different characters at the 4th and 5th position of the sequence of characters.

The files are grouped according to the adopted rule in the so-called directories. The main or basic director (ROOT) is created at the stage of diskette or hard disk formation which executing the FORMAT command. Subdirectories of lower rank are created upon execution of the MKDIR (MD) command. Linkages between directories may be presentation in the form of a graph—tree displayed below:

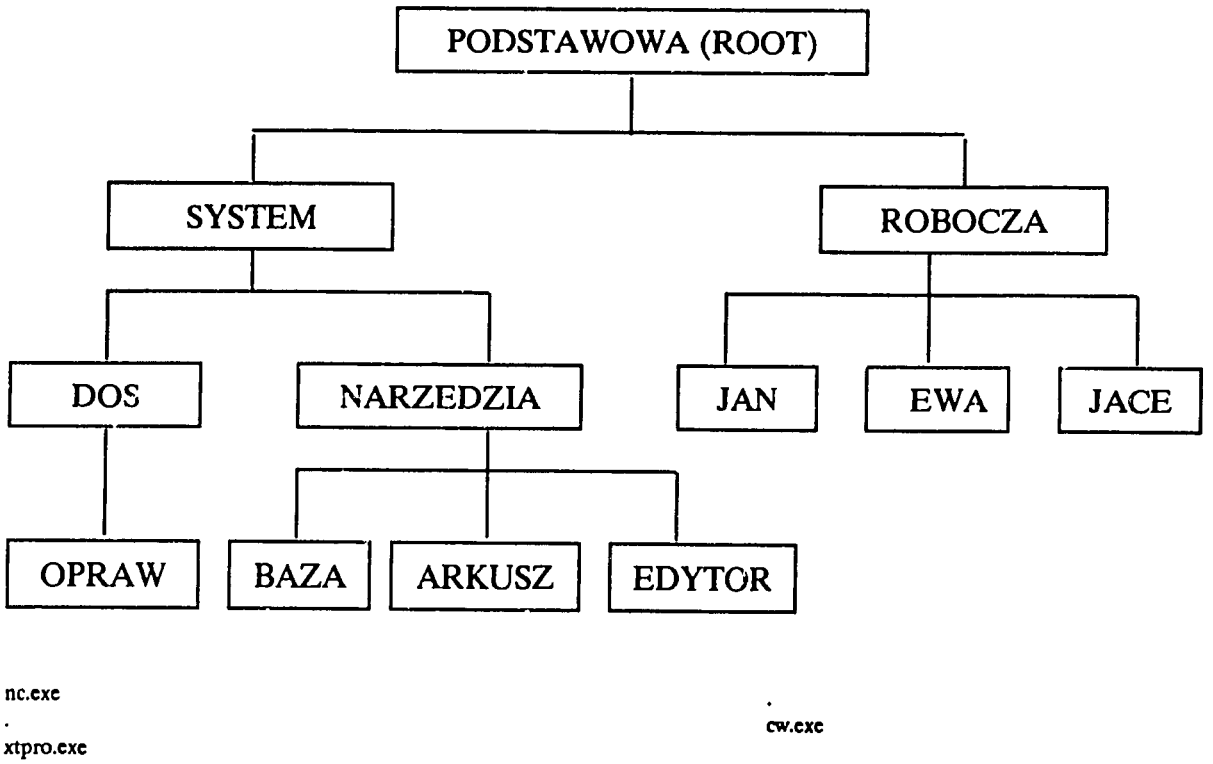

Fig. 2.4. Hierarchical structure of directories on a disk.

Every directory may contain a list of files and names of other directories. Directory that is currently under operation is called the current directory. In the MS-DOS system we can execute directories that we are found in the current directory (unless the access path to other directories are available). The change of the current directory is realized by the command CHDIR (CD). We can define a path, i.e., description of the route to a program that is found in another directory (in order to execute that program) from any directory. For instance, to recall the PCTOOLS program from the BINDINGS directory in a situation when we are in the main directory, we define the path:

PATH=\SYSTEM\DOS\BINDINGS

The directory may be both created (with the use of the MD command) and removed (RD command). The directory being removed has to be empty! The directory content may be displayed with the help of the DIR command, and the full structure of directories and their content with the TREE command.

The DOS Function Realized on the Files and Directories

The operating system performs its tasks by commands available in it. The basic group of commands concerns the questions connected with the operation on the files and directories of the system.

Preparation of the Diskette for Operation—Formatting

Every new diskette has to be formatted, i.e., prepared for operation within the MS-DOS system. Formatting is executed by issuing the command FORMAT d:. Preparation to operation is done by testing of the correction of records in sectors and creation of:

the basic system directory of the diskette,

the file allocation table (FAT).

In case of creating a system diskette (with MS-DOS) formatting is executed with the /s option. Then the system files of the MS-DOS—IBMBIO.COM and IBMBIO.COM as well as the command processor COMMAND.COM are recorded.

Servicing the Disk Directories

Multilevel structure of directories may be created both on the hard disk and on the floppy disk. For servicing it one needs the following functions:

- creation of a directory (MKDIR or MD),
- removal of a directory (RMDIR or RD),
- moving along the graph-tree of directories (CHDIR or CD),
- display of tree-like structure of directories (TREE),
- creation of paths of access to directories (PATH).

Copying of files (protection against the loss of files)

In the MS-DOS system it is possible to transmit files among all disk memories installed in the computer set. For copying files from or to the hard disk and floppy disks the command COPY is used. To copy entire diskettes, with formatting of the resulting diskette, the DISKCOPY command is used. To copy the whole structure of directories and subdirectories and their content the XCOPY command is used.

Comparison and Restoring of disk files

In order to test the correctness of record of files on the disk one can compare the basic (source) recording with the copy. The content of files is compared upon issuing the COMP command, while physical comparison of diskettes is realized with the DISKCOMP command. (One can order the system to compare the correctness of every recording on the disk using the verify switch (it prolongs, however, the recording operation by 100%). To recover the files located in the distorted areas of records one can use the RECOVER command.

Displaying and printing of disk files

The content of the files may be displayed or the monitor's screen or transmitted to the printer with the TYPE command. Printing of files may also be realized in the so-called background area, i.e., at the same time the system may realize other commands, by issuing the PRINT order. The way of displaying or printing of results is determined by the "MODE" command. Information displayed on the screen may be presented "page after page" with the help of the MORE command. Printing of copy of information displayed or the monitor screen in the graphic mode, requires the application of the GRAPHICS command.

Other operating on files:

The MS-DOS allows to:

- remove files from disk (ERASE, DELETE),
- change the name of the file (RENAME),
- selection of data from the file (FIND).

Basic commands of the DOS system

In this chapter the most often executed commands of the MS-DOS system will be presented.

• CHDIR (type: internal)

Function: indicates directory, that is to be adopted as current for the indicated disk drive.

Format: **CHDIR [[d:] path] or**
CD [[d:] path]

Remarks: The command allows to set the current directory within the framework of directories existing on the available disk drives [d:]. The lack of parameters results in a display of actual directory of the current drive.

Example: **CD**—change of the current directory to the main directory,
CD C:\TURBO\PAS1—after assignment of the c: drive, the PAS1 directory will become actual directory,
CD ..—passage to the superior directory.

- **COPY (type: internal)**

Function: Allows to create file copies on other disks, merging of other files with the given file, transmission of files onto other devices—e.g., LPT1, creation of text files.

Format: **COPY [/A] [B] spec_fi_in_1 [/A][/B][+spec_fi_in2 [/A] [/B] [+ ...]] [d:][path][spec_fi_out] [/A][/B][/V]**

Remarks: Specification of the file_in 1 and specification of the file_out 2, ... connected with the + sign define files that are to be concatenated into one output file.

The specification of file contains: [d:][path]name_fi[.ext].

Ignoring specification file_out means that the copy would have the same name as the input file.
Marking of the format parameters:
/A—for the text data files (ASCII),
/B—copying of the whole file (according to the size given in the vocabulary), implicitly assigned to binary files,
/V—verification of copy follows,
/A and /B—if they appear after the word COPY are considered as if they appeared after every specification of the file.

Example: **COPY *.* b:**
—copying all files of the given directory onto the b: disk,

COPY Zbiora.COM a:\ROBOCZA\KOPIA.COM
—the ZBIORA file of the current directory of the b: disk will be copied into ROBOCZA directory on the a: disk under the name KOPIA,

COPY ZBIORA.COM/B + a:\ROBOCZA\ZBIORB. TXT/A ZBIOR_WY.TXT—
concatenation of two files of different type and recording them in the file ZBIOR_WY.TXT,

COPY ZBIORA.BAT PRN:
—printing of the ZBIORA.TXT file,

COPY CON: ZBIORA.TXT
—copying of characters from the keyboard into the file.

- **DATE (type: internal)**

Function: sets the calendar date in the system.

Format: **DATE [mm-dd-yy]**

The date is written in the directory of every file which is created or modified. The date is in the form of month-day-year.

Example: **DATE**
—displays the current value of the date,
DATE—08-08-88.

- **DIR (type: internal)**

Function: The command displays the files of the actual directory or only the files defined in it. The retrieved information contains as well the name of the disk and recording concerning the amount of free space on the disk. The size of every file is given (in bytes) as well as the date and time of the last recording. If the current directory contains subdirectories, then its name and the marking is displayed.

Format: **DIR [d:][path][nazwa_zb][.roz]] [/P][/W]**

Remarks: The lack of name of the file means display of all names of files and subdirectories of the current directory, Since the list of displayed files may be larger than the size of the screen, one may apply the following options:
/P—the display is halted after filling the screen (continuation of display is realized after pressing any key),
/W—information about files will be displayed in a shortened version (so-called windows).

Example:

DIR
—display of content of the current directory

DIR b:
—display of content of current directory for the b: drive,

DIR a:\TURBO\LALA.PAS
—display of information about the LALA.PAS file from the a: disk.

- **ERASE (type: internal) or DEL (type: internal)**

Function: Allows to remove specified files from the disk.

Format: **ERASE [d:][path] file name_[.roz]** or
DEL [d:][path] file name_[.ext]

Example:

ERASE a:PROG.BAS
—removes files PROG.BAS from the current directory in the a: drive,
ERASE *.*
—removes all files from the current directory.

- **FORMAT (type: internal)**

Function: Performs initial operations on a diskette placed at a defined drive. The sense of those operations is formatting of the diskette, i.e., analysis of the whole diskette to find distorted sectors, organization of the initial version of the directory, table of location of the files and placement of the system loading program.

Format: **FORMAT [d:] [/S] [/1][/8] [/V][/B] [/4]**

Remarks:

Attention! Formatting destroys the content of the disk. That is why one has to execute formatting very carefully. One has to avoid issuing the command FORMAT without defining the disk station. Neither the hard disk nor floppy diskettes should not be formatted if valid instrumental and user's programs are stored on them.
/S—initiates recording of system files (IBMBIO.COM, IBM-DOS.COM), it is important while installing the operating system on a diskette,
/V—allows to introduce a diskette label containing 11 characters,
/4—allows to format diskettes having low storage density (360kB) on drives having high storage density (1.2MB)—for MS-DOS 3.20/3.30,
/f—allows to define the capacity of the formatted diskette for MS-DOS 4.0/5.0.

Example:

FORMAT b:
—formatting of the disk at drive b:,

FORMAT a:/S/V
—formatting of the disk at drive a: while merging the system files and possibility to introduce a label,

FORMAT a:/f:720
—formatting of the 720 kB diskette at the 1.44MB drives.

- **MKDIR or MD (type: internal)**

Function:

Creation of directory subordinated to the current directory (a subdirectory).

Format:

MKDIR [d:][path] or MD [d:][path]
—name of subdirectory

Remarks:

It is possible to create any number of subdirectories if only there is sufficient storage capacity of the disk available. One has to bear in mind, however, that the length of every single path loading from the main directory to a given level cannot exceed 63 characters altogether.

MD \SYSTEM
—creation of a system subdirectory in the main directory,

MD \SYSTEM\TURBO
—creation of the TURBO subdirectory in the SYSTEM directory.

- **PATH: (type: internal)**

Function: Defines subdirectories that will be additionally searched if the needed file or command will not be found in the current directory.

Format: **PATH [[d:] path [['[d:] path] ...]]]**

Example: **PATH**—the current and superior directories will be searched,

PATH a:/ROBOCZA;a:\KARTA\KARTB;b:\SYSTEM \TURBO—additionally the following directories will be searched ROBOCZA, KARTB on the a: disk as well as TURBO on the b: disk.

- **PRINT (type: external)**

Function: Allows to print files placed in a queue to be printed in the background area (the user may execute other commands in the meantime).

Format: **PRINT [[d:][file_name [.ext]] [/T][/C][/P] ...]**

Remarks: In the queue of files to be printed one can place up to 10 files (from MS-DOS 3.20 via the parameter '/Q:quesize' the number of files may be raised to 32). The files from current directory may be placed in the queue of files to be printed. It is allowed to use the following parameters:
/T—removal of the whole queue of files to be printed,
/C—selective recalling of files from the queue of files to be printed,
/P—placing the files in the queue for printing.
The use of the PRINT command without any parameters causes display of the actual queue of files to be printed.

Example: **PRINT a: ZBA.TXT**
—adding ZBA to the queue,
PRINT ZBA.TXT/C ZBB.TXT/P XBC/TXT
—removal of the ZBA file from the queue and putting the ZBB and ZBC files in it,
PRINT/T—nullifying the queue.

- **RENAME (type: internal) or REN**

Function: Changes the name of file described with the first parameter into a name described with the second parameter.

Format: **REN[AME] [d:] [path] file_name [.ext] new_file_name[.ext]**

Example: **RENAME c:/BASIC/PROGA.BAS PROGB.BAS**
—change of the name PROGA from the BASIC directory into the name PROGB.

- **RMDIR (RD) (type: internal)**

Function: Removes the subdirectory on the indicated disk. The subdirectory has to be empty.

Format: **RMDIR [d:] path or RD [d:] path**

Example: **RD C:\POPZIOM1\POZIOM2**
—removes the POZIOM2 directory.

- **TIME (type: internal)**

Function: Allows to set the current system time of the MS-DOS.

Format: **TIME [hh:mm[:ss[.xx]]]**
hh—hours,
mm—minutes,
ss—seconds
xx—seconds/100.

Example: **TIME**—display of the current system time, **TIME 12:30**—change of time into 12:30:00.00.

- **TYPE (type: internal)**

Function: Displays the content of indicated file on the monitor screen, providing the possibility to direct the print onto the printer.

Format: **TYPE [d:] [path] file_name[.ext]**

Example: **TYPE a:\POZIOMA\zbiora.txt**
—display of the file zbiora.txt,
TYPE b:zbiorb.txt PRN
—printing of file zbiorb.txt on the printer.

WORD PROCESSORS AS TOOL OF COMPUTERIZED TEXT PROCESSING

Word processor is a computer program that allows to prepare a typewritten text without errors, arranged with the help of a computer. The area of application of word processors is practically unlimited since there is a huge number of kinds of human activity which require utilization of printed information (office, school, university, science, management, commercial and marketing activity, home, etc.).

Using a computer for text preparation allows to avoid a number of problems that appeared when text were printed on a traditional typewriter. All kinds of errors, like misprints, change of sequence of letters in a word, omission of a word or of a whole phrase do not then have any impact on the quality of the typescript, since all changes are introduced into the text recorded in the computer memory and only when it is fully corrected one can start printing.

The foundation of operation of the word processor is typing of the text with the use of the keyboard into the computer memory and its displaying on the screen. The text may then be written down in the external memory of the computer (on a disk) and then it can be repeatedly introduced into the computer for further processing (introduction of changes and improvements, elimination of fragments of the text, addition of new fragments, operation with text blocks, etc.). One can generally distinguish a number of activities characteristic for the processing of text with the use of a word processor. These are:

- insertion and elimination of any fragments of the text
- change of position of any parts of text
- automatic replacement of some words with other words
- duplication of text or its part desired number of times
- merging of text
- automatic numbering of pages and introduction of pre-determined head and foot marks
- identification of frequently repeated parts of texts for their later automatic application

— preparation of files of databases in the ASCII codes for other software packages.

In general all commands of the word processor executing the above activities are recalled in a very simple manner with the use of functional keys. Since usually the prepared text exceeds the area of the screen several times, there is a group of commands of the processor that allows to easily search and display the needed fragment.

The word processors usually contain a number of options concerning printing of the document prepared earlier, which allow to determine the size of the printed page, type and quality of lettering and printing, width of the margin, division into pages, etc.

GENERAL CHARACTERISTICS OF THE *CHIWRITER* WORD PROCESSOR

CHIWRITER is a word processor developed by the Horstmann Software Design Corporation (in this text one has commented the 3.16 version). It may be practically installed on any IBM—compatible PC.

The minimum configuration needed is the following:

- IBM microcomputer (XT, AT, or PS/2) or compatible, with the RAM capacity of 384 kB, controlled by the PC-DOS or MS-DOS (2.0 or later versions)
- graphic card (CGA, MCGA, MDA, Hercules, EGA, or VGA)
- monitor (monochromatic or color) corresponding to a given graphic card
- two floppy disk drives (360 kB, 1.2 MB, 720 kB, or 1.4 MB) or one floppy disk drive and one hard disk
- printer (virtually any brand).

While processing larger texts the 384 kB RAM may prove to be insufficiently large. The producer's recommended RAM capacity amounts to at least 512 kB.

The installation of the CHIWRITER on the hard disk substantially facilitates the use of the word processor, since it allows you to easily introduce texts into the word processor and write them down.

One of the major advantages of the CHIWRITER processor is the possibility to use all letters of the Polish alphabet, which has been achieved thanks to the application of an arrangement that allows operation of a system of 20 different sets of characters that may be easily modified.

Recalling of the Program

Operations to be performed in order to start preparation of a document with the use of the CHIWRITER depend on the current state of the computer operations. If the computer operates now on the level of the operating system, one has to go to the directory where the editor is recorded or the documents are filed and start the program with the CW

command. It is possible to specify the name of the document in the command (the document filed already on the disk or a new one).

If we start the editor without giving the name of the document, the following initial index will be displayed on the screen after filing all needed system files, containing the following options:

[R]ead a document from disk

[I]mport an ASCII file

[S]tart a new document

[C]hange directory

[P]rint a document

[Q]uit Chiwriter and return to DOS

Enter Command.

One has to choose a required option pressing the corresponding character key (R, I, S, C, P, or Q). If we start operating the word processor and create a new file, we push the "S" key. The next picture on the screen contains the command to enter the name of the created document. The name may contain at most 8 signs (the name extension contains the CHI logo). If we want to use the document filed earlier, we selected correspondingly the I or R key. The possibility of recording or rewriting of the disk file on a different disk directory is available—one selects then the "C" key, and if one wants to print a document from disk—chooses the "P" option. If we finish the word processor operation and want to return to the system operating level, we select the "Q" letter.

One can enter up to 78 characters in one line in a standard sized document. When we want to file texts that contain more characters in a line, one has to recall the word processor with the CW command—with a number, where the number defines a value selected from the span extending from 8 to 520 characters. The L—value defines only the maximum column to the right margin but does not set that column. To that end, before starting editing the document one has to set the right margin with the command LAYOUT—MARGINS—RIGHT MARGIN.

The Window of the Word Processor

If we select the options concerning the operation on the text (Q, I, S, or C), the subsequent image on the computer screen contains the so-called word processor's window, that is made of the following:

a. status line

b. tabulator line

c. index line

d. area of the text

a. The status line is the upper line of the screen containing the following information displayed from left to right:

— name of the document with extension

— currently applied font (e.g., F1—STANDARD)

— percentage of occupied memory capacity (FULL: %)

— mode switches

synchronization (SYN)

insertion of characters (INS)

margin adjustment (alignment) (JST)

— current spacing between lines (e.g., SINGL)

— row, where the cursor is placed at the moment (ROW:)

— column, where the cursor is placed at the moment (col:)

— number of page, where the cursor is placed at the moment (PAG:)

The font is selected with the help of functional keys F1—F10 and (together with the SHIFT key) F11—F20. The word processor allows to apply 20 various fonts. Fonts currently used by the word processor may be selected from a set of fonts stored on the disk. The list of font, that may be displayed on the screen at any time is stored in the configuration file. The font may be changed:

— to write one character by pushing the suitable functional (Fn) key once

— for further writing by pushing the suitable functional key (Fn) twice. In the latter case the name of the currently used font will appear on the status line.

In order to learn the position of particular characters in the non-standard fonts one has to push once the corresponding key Fn and the Alt and H keys (FN + Alt + H). The keyboard of the corresponding font will be displayed. When one then pushes the key with a character it will put the computer in the editing mode and that character will be simultaneously written at the cursor position. The percentage of occupation of the RAM memory is an important piece of information since in the case of CHIWRITER the whole edited documents has to be put in the computer's RAM. In case of a longer document one has to divide it into parts and edit every one of them separately.

Switching of the synchronization mode is possible with the use of the grey key *. One line in the CHIWRITER program contains the so-called ROWS. Switching the synchronization mode allows to independently edit each ROW (layer). It is very useful in case we want to edit tables, complicated formulae or diagrams.

Switching on the inserting mode (with the use of the INSERT key) makes the existing text shift to the right and one can easily enter new information (a single character, a word, phrase or even a longer part of the text) into the space that is prepared in such a way while the "old" text is not eliminated.

Entering the margin adjustment mode (the Ctrl + J keys) makes the given line automatically filled with space so that the whole text is displayed evenly between the left and the right margin. The program does not provide the possibility to automatically divide the words.

Switching off all the above mentioned modes is realized via pressing the corresponding key for the second time.

The space between lines may be changed by entering the command LAYOUT—SPACING that will be described later. One can change the space between single lines pressing the (Ctrl + A) for addition or (Ctrl + Z) for elimination of one or more layers (rows).

The number of row, column, and page of the cursor position are automatically displayed on the screen.

b. The tabulation line contains the current position of the tabulator that allows to make the automatic passage of the cursor through the corresponding number of characters in the line to the next marker of tabulation. The rules of switching the tabulator on and off will be commented in connection with the LAYOUT command (TAB option).

c. The index line is the lower line of the computer screen separated from the rest with a double continuous line containing an index of the CHIWRITER commands, having a structure of a tree whose branches may be climbed in the following way:

- pressing the ESC key results in entering into or getting out of the index line
- The ↓, ↑, ←, → keys allow to move along the branches of the key and highlight the selected option without executing it
- pressing the ENTER key makes the computer execute the corresponding command.

In case of some commands (e.g., MARK, PRINT) every or most of the options have also a structure of a tree and that is why in order to select a single order one has to apply the above rules once more to move along the index tree.

The order to execute a command is reached in principle after coming to it via the index tree. One may reach that option quicker by pressing the Alt + X keys, where X means in general the first letter of the command name. Part of commands (mainly the editing commands) have been programmed so that they can be realized with the use of one key only, and not by searching it on the index tree. Most of them are executed with the use of the Crtl key + letter. The corresponding list is presented here:

Ctrl + A	add a row
Ctrl + B	page end
Ctrl + C	center line
Ctrl + D	define key
Ctrl + F	formatting
Ctrl + G	go to page -

Ctrl + I	bar page end
Ctrl + J	adjustment switch
Ctrl + K	using a key
Ctrl + L	repeat search
Ctrl + M	adjust right margin
Ctrl + N	enter footNote
Ctrl + P	insert text from buffer
Ctrl + R	change characters' sequence
Ctrl + S	search key sequence
Ctrl + T	tabulation switch
Ctrl + W	delete a word
Ctrl + Z	delete a row
Ctrl + [	left margin
Ctrl +]	right margin
grey +	searching a character forward
grey -	searching a character backward
grey *	synchronization switch

The index line contains the list of the following basic commands of the CHIWRITER.

MARK	— highlighting of text blocks
LAYOUT	— arranging layout of the text
SCREEN	— screen operations on the text
DELETE	— elimination of information
READ	— reading information from disk
WRITE	— writing information on disk
PRINT	— printing
ENVIRONMENT	— configuration of editing parameters
QUIT	— return onto the operating system level
HELP	— helping information about meaning of command

d. The area of the text covers the remaining part of the screen. It is the part of the screen where the edited text is entered from the computer keyboard or from the inner memory.

While entering the text of the document from the keyboard it should be entered in paragraphs, i.e., text blocks.

Every paragraph (and not the line) should be finished by pressing the ENTER key. A paragraph may contain one or more lines. It may also be empty (i.e., contain an empty line).

A line not being the end of a paragraph is marked with a sign of the end of line, placed in the 79th column. The line ending a paragraph is marked with a sign of the end of paragraph. If a paragraph is longer than one line (which is usually the case), the word processor passes by itself to the next line transferring to it the last word that was superfluous in the former line. Besides that if the margin adjustment mode is not switched on, the last written line will be evenly spaced between margins.

While entering the text from the keyboard and while performing some operations on the written text one often uses the cursor sign to shift it to a different location on the screen or in the whole text. Shifting of the cursor may be realized with the use of the following keys (their functions in the unsynchronized mode are slightly different, it has been taken into consideration in the following list).

Key	Synchronous mode	Nonsynchronous mode
→	one character to the right	
←	one character to the left	
↑	one line up	one row up
↓	one line down	one row down
Ctrl +	one word to the left	
Ctrl +	one word to the right	
PgUp	one screen up	one line up
PgDn	one screen down	one line down
Ctrl + PgUp	one row up	
Ctrl + PgDn	one row down	
Home	beginning of a line	
End	end of a line	
Ctrl + Home	beginning of a document	
Ctrl + End	end of a document	
Ctrl + G	go to page...	

While entering the text very often misprints or other errors are committed. To eliminate a single character one uses the keys (Bspc = Backspace) and Delete (Del). The first eliminates the character located on the left of the cursor, the other—the character located at the cursor position.

A line may be deleted if one presses simultaneously the Ctrl + Bspc keys. To eliminate words, longer parts of the text on the whole document, one uses the DELETE command.

After setting the length of the page with the LAYOUT—PAGINATION—PAPER-LENGTH command the word processor automatically marks the end of a page on the screen with a dotted line. If we put the sign of the end of page by ourselves (Crtl + B), it will be marked with a continuous line.

The rules of setting margins, spacing, creation of head and footnotes will be described when describing the LAYOUT command.

CHARACTERISTICS OF THE WORD PROCESSOR'S COMMANDS

MARK

The MARK command enables to mark the block or part of the text, a which one may execute some additional operations. Marking of the block is signalized by highlighting the text on the computer screen. The beginning of the block is set by the cursor position before entering the MARK command, the end—the use of the END option.

The highlighted block of the text may be:

— cut out of the text and put in the buffer, to duplicate it is another location

— write duplicate of the marked text in the buffer

— write on a disk and print

— change the fonts or spacing in the text.

These functions are realized with various option of the MARK command, among which one may enumerate the following.

END —
end highlighting

CUT —
cut the marked block

DUPLICATE — creation of a duplicate of the highlighted text

FONT — font change

SPACING — change the line spacing

CASE — change of small letters into capital letters and vice versa

REFORMAT — formatting of the block

GLUE — "glue" the block

WRITE — write the block on the disk

PRINT — printing of the block

HELP — display of a manual

LAYOUT

The LAYOUT command determines basic parameters concerning editing of the text on the page. Its particular options are the following:

SPACING	— spacing between lines
MARGINS	— size of margins
TABS	— setting of tabulator
HEADERS	— marks written at the top of the pages
FOOTERS	— marks written at the bottom of the subsequent pages
PAGINATION	— pagination (division of text into pages)
FOOTNOTES	— footnotes
GRAPHIC	— attachment of graphic files
HYPHEN	— dividing of words

SCREEN

The SCREEN command contains a set of options that enable to edit the text on the screen, like, e.g., centering it, insertion of footnotes, formatting or searching. The command has the following options:

PASTE	— insertion of the buffer content
FORMAT	— formatting of a paragraph
SEARCH	— searching a character sequence
REPLACE	— replacement of the text
LAST SEARCH	— repeating search
FOOTNOTE	— insertion of a footnote
OPEN	— display of a window from a notepad
MORE	— additional screen options

DELETE

The DELETE command (eliminate remove) enables to remove the information from the text of the document or the whole document from the computer memory. It has the following options available.

WORD
ROW
LINE
DOCUMENT
HEADER
FOOTER
SEPARATOR
NOTEPAD

READ

The READ command allows to introduce a document that was written earlier on the disk. It contains three options:

NEW DOCUMENT
MERGE DOCUMENT
IMPORT ASCII
NOTEPAD

WRITE

The WRITE command allows to write documents on the disk. It has the following options:

DOCUMENT
EXPORT ASCII
CHANGE NAME
SET EXTENSION
BACKUP FREQUENCY
NOTEPAD

PRINT

The PRINT command enables to print the currently edited document or file from the disk on a printer. It contains several options that set the printing parameters (font, print quality), as well as the scope of information transferred to the printer. The options of the PRINT command are the following:

GO	
PITCH	— kind of typefaces
QUALITY	— quality of printing (draft, enhanced, letter quality)
OPTIONS	— additional options
NUMBERING	— numbering of pages, headnotes and footnotes
FROM FILE	— printing from a disk file
TO FILE	— writing of codes on the disk
CHANGE PRINTER	

ENVIRONMENT

The ENVIRONMENT command allows, first of all, to communicate with the disk drives, define the so-called keys, operational modes of the word processor as well as list and write changes in the configuration file of the editor (CONFIG.PAR).

QUIT

The QUIT command ends the program and returns to the operational system level. If there is a document in the memory, that was changed, but not written on the disk, the word processor will ask for confirmation of order to execute the command.

HELP

The HELP command displays a shortened list of the word processor's commands (a manual of commands), it may also be displayed pressing the Alt + H keys.

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SPREADSHEET LOTUS 1 — 2 — 3

Introduction

One of the most frequently applied types of operations connected with the management of a firm is the processing of data arranged in different tables. The work is monotonous, and it takes a lot of time, especially when we have only a calculator at our disposal to facilitate calculation. LOTUS 1 — 2 — 3 is the instrumental software which, best of all, enables to solve this class of tasks. The basic functions performed by LOTUS 1 — 2 — 3 are:

1. Preparation of the array and making all necessary calculations.
2. Printing the whole or part of the array.
3. Preparation and printing of the graph.

Besides, LOTUS can serve as a simple sort of data base. There is also a possibility to extend the functions of the implemented program, by giving the macro instructions.

Debugging

Debugging is started by giving command 123. Upon pressing the ENTER key there appears a blank sheet on the monitor screen. By pressing the '/' key we get access to the LOTUS menu. The sheet operation is finished by taking option QUIT.

Worksheet

The worksheet is a matrix structure (array) composed of horizontal rows (8192 lines) and vertical columns (256 columns altogether). Each intersection of row and column builds an array element (cell), constituting the sheet main organization unit, where individual data can be recorded. Each cell has its identity address, composed of, successively: The column number and the row number. The row numeration appears on the left of the sheet, and is a digit numeration (from 1 to 8192), while columns are marked by letters at the top of the

sheet: from A to Z, and next from AA to AZ, BA to BZ etc., up to IV. Thus which means it is a cell situated at the intersection of 4th column (letter D) and 91-st row.

Orientation in a present position on the sheet is facilitated by highlighting indicating the active cell (the so-called cell indicator). Above the actual sheet there is a so-called control panel, containing information about the form and mode of recording and the basic menu.

Moving over the sheet

The moving over the sheet consists in shifting the cursor within the limits of currently available sheet area, and in shifting the whole screens. You can find below the set of keys performing the particular translocation functions:

Key	READY or POINT Modes	MENU mode
←	shift by one cell left	shifts by one item left
→	shift by one cell right	shifts by one item right
↑	shift by one cell up	
↓	shift by one cell down	
PgUp	shift by one screen up	
PgDn	shift by one screen down	
Home	move to the upper left sheet corner	shifts to 1st item
End	(must be used with other keys)	shifts to the last item
End Home	shift to the bottom right corner of the filled in of the sheet part	
End ↑	shift up to a filled in cell neighboring a blank one	
End ↓	shift down to a filled in cell neighboring a blank one	
End →	shift right to a filled in cell neighboring a blank one	
End ←	shift left to a filled in cell neighboring a blank one	

Also key F5 (GO TO) serves to move over the sheet. Upon pressing this key, a question for the address of the cell, which is to be reached, i.e., 20 D will appear in the control panel second row. Then the D 20 cell will be placed at the upper left sheet corner.

Data entering

The following data can be entered into the sheet cells:

— numbers,
— character series (called labels),
— calculation formulas.

Numbers

The numbers being entered must comply with the following requirements:

— must begin with one of the following characters: 0 1 2 3 4 5 6 7 8 9 . + - $ (,

— should contain not more than 240 characters,

— the magnitude must be between 10 E — 99 and 10 E + 99,

— may have only one decimal point,

— may end with % to indicate a percentage,

— may have an index form.

The number being entered is automatically pushed close to the right side. The standard column width (hence cell width) is 9. The size can be increased by means of the formatting command from the menu.

Character series (labels)

If the first character being entered into the cell is a letter, LOTUS treats it as a character series (label). A label may be composed of a series of characters complying with the following requirements:

— it must begin with a label starting character or another character not being a number or formula,

— it may contain not more than 240 characters,

— it may contain digits provided that the first character is the one pertinent to a label.

Normally a label is entered into the cell starting from the left side. The rule can be changed by using one of the following characters to begin a label:

Character	Effect
'	pushes the entry close to the cell left side
"	pushes the entry close to the cell right side
Λ	sets the entry in the centre

A standard column set–width (hence also cell width) is 9. This size can be increased by means of the formatting command.

Formulas

A formula is a calculation instruction. It may be composed of numbers, arithmetic rule operators and of cell addresses. Standard formulas begin with the character @ (functions). Entering a formula in a cell provokes the appearance of the result value in the cell.

A formula should comply with the following requirements:

— it must begin with one of the characters: 0 1 2 3 4 5 6 7 8 9 . + - $ (#,

— may contain not more than 240 characters,

— may not contain a space,

— must begin with + if the first element of the formula is the cell address.

Changing the sheet entry

A total change in the cell contents is performed by entering a new datum. A partial change in the cell contents (edition in the check window) is accomplished by setting a cursor at the cell, and pressing the F2 key. The entry change must be accepted (by pressing the ENTER key).

Within the sheet one can also delete the following:

- individual cell contents—after having set the indicator at a selected cell, the key Del should be pressed.
- row or column contents—after setting the indicator at a selected row or column command WORKSHEET DELETE is given, and after a question whether the row or column is to be deleted the selected option must be confirmed (ENTER).
- neighboring cells range contents—commands RANGE ERASE must be given.
- all sheet cells contents—command WORKSHEET ERASE must be given.

Calculations

Calculations on the sheet are made on the basis of formerly defined formulas. LOTUS allows introducing 3 types of formulas:

— arithmetic formulas acting with numbers by means of arithmetic operators,

— logical formulas which compare the magnitudes of 2 or more cells by means of logical operators (they return the value: TRUE or FALSE),

— @ FUNCTION type functions (i.e., @ SUM (A 20... A 35).

In formulas arithmetic and logical operators are applied. Their meaning and the performance sequence is shown in the following specification:

Operator	Rule (operation)	Performanceorder
∧	involution	1
,/	multiplication, division	2
+,-	deduction, subtraction	3
=,< >	equal, different	4
< >	contained between	4
≤	smaller or equal	4
≥	greater or equal	4
# NOT #	logical NOT	5
# AND #	logical AND	6
# OR #	logical OR	6

To facilitate operating on the sheet a set of ready to perform formulas has been introduced. The following types of functions can be singled out:

- mathematical (e.g., @ABS(X), LN(X), COS(X)),
- logical (e.g., IF (condition, x, y)),
- statistical (e.g., @MAX(list), @SUM (list)),
- special,
- date type (e.g., @DATE(year, month, day @YEAR(number)).

Here are some examples of formulas together with the rules and functions sequence:

1. 100 + ((500 - A20) * 35) / 40 + B50
   4 1 2 3 5
2. + d$ * D5 + E4 * E5
3. @SUM(A1...A100)—summing up of cells from A1 to A100
4. @AVG(A2...A10)—calculates the mean of the magnitudes from A1 to A10.
5. MAX(A1...A100)—calculates the maximum magnitude from A1 to A100.

Essential organizational operations

The main organizational operations are:

A. Memorizing the sheet on a disk is performed by the command /FILE SAVE; upon the command the system asks the name of the file being recorded on the disk.

B. Regaining the sheet from the disc—is performed by command /FILE RETRIEVE; upon the command the names of files recorded in the disk current directory are displayed.

C. Sheet printing—is performed by command /PRINT PRINTER; then, after defining the sheet range to be printed (RANGE) the command GO must be given to start printing.

D. Graphic illustration of results is performed by command GRAPH TYPE, then, after specifying the cell range in axes X and Y that is to be displayed, the graph type is selected (e.g., LINE, BAR, PIE).

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SPECIALIZED APPLIED SYSTEMS

There are various information systems facilitating the current management in an enterprise. Such systems are called Management Information Systems (MIS) (Polish abbreviation—SIZ) and they support particular spheres of the firm's activity. For that reason they are often called applied systems as opposed to operation systems and tool system being the base for the creation of applied software. Therefore the class of applied systems is very wide. The following specialized system can be mentioned here:

Finance and Accountancy

Materials Management

Wages and Personnel

Automatization of Office work

Sales and Orders

Technical Preparation of Production

Transport

and others

The general organization of the applied system and its functions will be presented on the example of the office work automatization system.

SEKRETARIET SYSTEM

The purpose of the system

The SEKretariat system is an all-purpose system that may be used for supporting an administrative work in all types of offices and secretary's offices both in the enterprises and in the state administration.

Functions of the system

The system in question consists of 4 logically interrelated subsystems:

KORESPONDENCJA

(Correspondence)—registration and edition of correspondence received and set by the office

DECYZJE

(Decision)—the subsystem stores and retrieves the data on the decisions made in the office

AGENDA—the subsystem stores data on each employee's agenda and facilitate the organization of meetings and conferences.

NOTATNIK

(Note book)—it stores the data about addresses of firms and people being in contact with the office and about the firm's employees.

For the subsystem NOTATNIK an additional module has been designed which makes it possible to store and retrieve the information on the communication links most frequently used by employees who daily commute to the enterprise.

The above mentioned particular subsystems serve specific functions. They are presented on the following diagrams.

In order to secure an information service for these subsystems a special module called KODY has been designed. From each subsystem the description of functioning of the SAK system can be retrieved—by pressing the F1 key, and the information on current data and the system time—by pressing the F2 key.

STRUCTURE AND FUNCTIONS OF THE KORESPONDENCJA SUBSYSTEM

KORESPONDENCJA

Recording of letters

edition of contents
standard printing
printing with changing of the parameters

Statistical information on letters

— received
— sent
— settled

Retrieving of letters

definition of the searching criteria
looking through records
modification of records
choice of a record
information on decision

Creation of letters

drawing up the contents
— with a pattern
— without a pattern
serving of patterns
— modification
— edition of contents printing

STRUCTURE AND FUNCTIONS OF THE DECYZJE SUBSYSTEM

DECYZJE

Matters to decide

list of things to be done according to various criteria

Recording of decisions

recording of decisions taken
recording of realization process

Retrieving of decision according to various criteria

— correction of decision
— printing of decision

Monitoring of decision realization

— done
— under process
— not done in time
— not done

STRUCTURE AND FUNCTIONS OF NOTATNIK SUBSYSTEM

NOTATNIK

Data on firms

records of firms in the notepad
selecting on firm
selecting of a group of firms

data bout correspondents
- recording of a correspondent in the notepad
- selection of correspondent
- selection of a group of correspondents

Records on employees

making records on employee
selection of employee
selection of a group of employees

time schedule of trains/busses

STRUCTURE AND FUNCTIONS OF AGENDA SUBSYSTEM

AGENDA

Dates of conferences and business trips

- recording of items
- access to items

Selecting date of meetings

- fixed date
- the most convenient date

The KODY module supports the functioning of the rest of the subsystems and performs the following functions:

KODY

codes of documents

codes of cells

creation
memory
control

codes of matters

OPERATION OF THE SEKRETARIAT SYSTEM

THE SYSTEM IS INITIATED VIA starting the procedure-office (enter) that sets the configuration parameters (set clipper = 50) and recalls the main module—SEK. For proper operation of the system it is necessary to set in the configuration file CONFIG.SYS the minimum number of activated files and buffers.

files = 50

buffers = 20

The modules of the Sekretariat system are automatically activated from the Main Menu which is organized with a dialogue technique of highlighting the screen windows. After activation of the system it is realized in a fully self-recording mode, i.e., one attempted to include possibly complete set of helping programs

EQUIPMENT AND SOFTWARE REQUIREMENTS

The SEKretariat system was designed on the base of CLIPPER '87 software and in the DOS 3.20 or higher operating program. The final version has SEK.EXE form.

The system may be run on a standard configuration microcomputer IBM-XT/AT/386/486:

- operating memory
- hard disc
- colorful and monochromatic graphics
- dot printer 15"

ELEMENTS OF BUSINESS LAW

1109

UNIT 8

Title: **ELEMENTS OF BUSINESS LAW**

Purpose: This unit is designed to provide the participant with information about legal base for running business activities, to help them to understand different types of ownership, to be familiar with contracts and the procedure of claims execution

Objectives: Upon completion of this unit the participant will:

- understand the different basic types of ownership
- decide what type of ownership to choose for their own business
- understand the idea of civil law company contracts
- learn types and the ways of making contracts
- learn how to claim default

Materials:

Transparency 8-1	Basic Law Acts Regulating Business Activities
Transparency 8-2	Basic Questions
Transparency 8-3	Ways of Doing a Business
Transparency 8-4A-B	Types of Partnership
Transparency 8-5	Elements of a Civil Law Company Contract
Transparency 8-6	Elements of a Limited Liability Company Contract
Transparency 8-7	Ways of Making Contracts
Transparency 8-8	Forms of Contracts
Transparency 8-9	Legal Consequences in case of Incorrectly Concluded Contract
Transparency 8-10	Elements of a Contract
Transparency 8-11	Types of Contracts
Transparency 8-12	Organs Settle Disputes
Transparency 8-13	Types of Plenipotentiaries
Transparency 8-14	Costs of a Legal Process
Transparency 8-15	Elements of a Procedural Document
Handout 8-1	Legal Base for Running a Business
Handout 8-2	Basic Issues of Running a Business as a Sole Proprietor-ship, Civil Law Partnership, Limited and Unlimited Partner-ships, Limited Liability Company in terms of liabilities, right and obligations of partners etc,.

Handout 8-3	Characteristic of a Contract
Handout 8-4	An Offer and Negotiations
Handout 8-5	A Preliminary Contract
Handout 8-6	Legal Character of Remarks Put Down on Invoices
Handout 8-7	Forms of a Contract
Handout 8-8	A Contents of a Contract
Handout 8-9	Types of contracts
Handout 8-10	Organs which Settle Disputes
Handout 8-11	Plenipotentiaries
Handout 8-12	Costs of a Legal Process
Handout 8-13	Procedural documents

Class Exercises

Describing the role of such legal issues in running a business as liabilities of partners, rights and obligations, third partner, competencies, contributions, shares in profits, ... etc.
Discussion about advantages and disadvantages of each type of ownership
Describing some types of contracts
Writing a procedural document

Product:

The participants will describe their own company in terms of a type of ownership
The participants will make a contract of their choice
The participants will write a procedural document

Notes to Instructor:

This unit is designed to give the participants basic information in terms of legal issues in running a business.

Estimated time:

Describing basic legal issues	30 minutes
Discussion about types of ownership	30 minutes
Determining rights and obligations of contract parties	60 minutes
Making a contract	15 minutes
Describing execution of claims	45 minutes
Writing a procedural document	15 minutes

UNIT 8

Elements of Business Law

CONTENT	PROCESS
Introduction In this unit participants will learn about legal base for running a business what will help them to run their business activities more efficiently.	
Law regulations on setting-up and running a small business. General framework of any kind of business activities is set forth in the stipulations of the Act on Economic Activity if 23rd December 1988 (Off. Journal No 41, pos. 324 with later amendments). According to that act undertaking and running of economic activity is free and allowed to everyone on equal rights, provided that the rules of law are observed. Undertaking of some defined economic activity is sometimes subject to licensing.	The instructor will present TP8-1: Basic Law Acts Regulating Business Activities (in Poland) and provide the participants HO8-1: Legal Base for Running a Business. It might help the participant to start thinking about a legal form of their own business through answering the following questions (TP8-2): 1. Who is going to be your partner? 2. How many partners are going to be there? 3. What is the subject, aim and scope of your undertaking? etc.,
Business activities based on notification in the files. This is the simplest form of running a business. *The sole owner* of the enterprise enjoys full independence and freedom in running his business within the framework set up by the rules being in force. He takes decisions in all matters and bears full responsibilities for their outcome.	Present TP8-3: Ways of running a business Provide the participants with HO 8-2 which describes in details how to run a business as a sole proprietorship, a civil law company ... in terms of partners'liabilities, competencies, shares in profits ... etc.

CONTENTS	PROCESS
Types of Partnership	Present TP8-4A and B: Types of Partnership and TP 8-5: Elements of a civil law company contract
A Civil Law Company	
A small business may function in the form of a non-commercial partnership - a civil law company. A civil law company is created and acts according to the rules of the Civil Cod. It may be established by one or two partners.	
The contract of establishment of a non-commercial partnership has to be made out in writing for documentary reasons. The partners oblique themselves to strive to achieve a common economic goal acting by contributing shares. The contract should contain: names and surnames of the partners, aim and scope of undertaking, shares of co-owners, their participation in profits and losses, representation of the company.	
Unlimited and Limited Companies	
Unlimited and limited companies are commercial law companies. Unlimited company is a personal company. It has to make an entry in the commercial register. In case of the limited company, any partner who is liable in an unlimited way for the obligations of the company in relation to the creditors, unless the contract of the company puts it in a different way.	Present TP 8-6: Elements of a Limited Liability Company Contract.
A Limited Liability Company	
A limited liability company is a commercial law company. Its partners are personally liable for the obligation of the partnership in a limited way only, up to	

CONTENTS	PROCESS
the amount of a given sum called the sum of the limited partnership. A limited liability company has the character of a legal person. It is led by the share-holders' meeting, the board of directors. The company has to make an entry in the commercial register which has the constitu-tive character, to establish its board, to make a contract.	
A Contract By a contract the parties organize the mutual rights and obligations according to their expectations. At present the freedom of conclusion of contracts becomes a rule in the economic law. Cases with the conclusion of contract is obligatory are fully incidental in the present.	Let the participants read HO8-3: Characteristic of a contract and present TP8-7: Ways of Making Contracts.
An Offer and Negotiations An offer is the will to conclude a contract expressed by the offeror and addressed to the other party (offeree) containing important stipulations of the eventual future contract.	Provide the participants with HO8-4.
A modified of an offer is a counteroffer. It is an acceptance of an offer by the offeree with a stipulation of change or amendment of its contents. It is then an offer made by the other side. The way of concluding a contract when the subject is complicated and requires a lot of adjustments are negotiations. During negotiation a contract is treated as concluded when the parties reach an agreement on each provision of the contract.	Provide the participants with HO8-5: A Preliminary Contract which is an introduction to the next step in our discussion - a contract. Point out the character of remarks put down on invoices (HO8-7).

CONTENTS	PROCESS
Forms of Contracts A form of a contract - the way it has been concluded. Generally, there are no binding legal regulations as to the form of contracts. Few exceptions that oblige the parties to observe some particular forms result from the necessity to secure the reliability of economic process or the interest of the state.	Present TP8-8: Forms of Contracts and distribute HO8-7. Underline the legal conse-quences in case of incorrectly concluded contract presented in TP8-9.
Contents of A contract A correctly concluded contract should contain both the elements necessary for individualization of the contract from the point of view of the parties' needs and additional elements being very often a repetition of contents of some legal regulations. Elements considered as those which individualize a contract - indication of the parties of the contract, subject of the contract, the remuneration and the date of execution of the contract.	Present TP8-10: Elements of a Contract and distribute HO8-8.
Types of Contracts In general, the law distinguishes two types of contracts - the named contracts, created and named by the legal acts and the unnamed contracts resulting from socio-economic practice. Such types of contracts as: contract of selling, a contract for performing a specified task, order and so on are examples of named contracts. Unnamed contracts consist of leasing and franchising contracts. There are also mixed contracts in which the parties compiled the elements of various named contracts. From the practical point of view it is useful to distinguish the contracts of outcome (e.g. a contract of purchase of	Present TP8-9: Types of Contracts

CONTENTS	PROCESS
agriculture produce, a contract for performing a specified task, a contract of constructions works) from the contracts of careful performance (e.g. a contract for commission sale, an agency contract).	
Execution of Claims In case, when the debtor does not meet his obligations voluntarily, the creditor may execute the realization of his obligations with the use of legal pressure. The organs which settle disputes arising in relation with the conduct of business are the common courts. Depending on the kind of subject matter they will be considered in different departments - e.g. civil, economic, labor.	Present TP8-12: Organs which Settle disputes.
Plenipotentiaries The parties may appear in court personally or via established plenipotentiaries. The plenipotence is, or as a rule, given as general plenipotence or the right to conduct certain affair, or more rarely, to conduct only certain procedural activities. The plenipoten-tiary of a natural person may be: a barrister, co-participant in the dispute, a manager of the property or the interests of the party, a person remaining in a permanent relation with the party, parents, spouse, next of kin, descendants and adopted persons. The pleni-potentiary of an economic subject may be: a legal adviser, an employee.	Present TP8-13: Types of Plenipotentiaries and distribute HO8-11.
Costs of a Legal Process. There is a rule that the failing party is obliged to cover the costs of the process on demand of the employee. The costs of the process are made of court fees and	Present TP8-14 Costs of a Legal Process and distribute HO 8-12.

CONTENTS	PROCESS
expenses. In some cases, when the party proves it does not have sufficient resources to cover the costs, the court may relieve it from the obligation of covering the court fees totally or partially.	
Procedural Documents	Present TP8-13: Elements of a Procedural Document. Distribute HO8-13.
Executing the realization of obligation it is indispensable to prepare procedural documents. Every procedural document should contain: description of the court, to which it is addressed, description of parties and their plenipotentiaries, description of the kind of the document, essentials of the motion and evidence supporting the presented circum-stances, signature of the party or his plenipotentiary and a list of enclosures.	

BASIC LAW ACTS REGULATING BUSINESS ACTIVITIES

A.

I. THE ACT ON ECONOMIC ACTIVITY OF 23rd DECEMBER 1988 (Off. Journal No 41, pos. 324) with later amendments:

1990:	Off. Journal No 26, pos. 149
	Off. Journal No 34, pos. 198
	Off. Journal No 86, pos. 504
1991:	Off. Journal No 31, pos. 179
	Off. Journal No 73, pos. 321

II. COMMERCIAL CODE

III. LAW CODE

IV. Civil Code

B.

SPECIFIC LAW REGULATIONS CONCERNING PARTICULAR ECONOMIC ACTIVITIES

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BASIC QUESTIONS

1. *WHO* IS GOING TO BE YOUR PARTNER?

2. *HOW MANY* PARTNERS ARE GOING TO BE THERE?

3. *WHAT* IS THE SUBJECT, AIM AND SCOPE OF YOUR UNDERTAKINGS?

4. *HOW LARGE* AND *IN WHAT FORM* THE CONTRIBUTIONS (SHARES) OF THE COMPANY ARE GOING TO BE BROUGHT IN?

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WAYS OF DOING A BUSINESS

1. NOTIFICATION OF A BUSINESS ACTIVITY IN THE FILES

2. TYPES OF A PARTNERSHIP:

   - CIVIL COMPANY
   - UNLIMITED PARTNERSHIP
   - LIMITED PARTNERSHIP
   - LIMITED LIABILITY COMPANY
   - JOINT-STOCK COMPANY

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TYPES OF PARTNERSHIPS

1. BY GOVERNING LAW

A. CIVIL LAW COMPANIES

- CIVIL COMPANY

B. COMMERCIAL LAW COMPANIES

- UNLIMITED PARTNERSHIP
- LIMITED PARTNERSHIP
- LIMITED LIABILITY COMPANY
- JOINT-STOCK COMPANY

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2. BY RESPONSIBILITIES OF PARTNERS

A. PERSONAL COMPANIES

- CIVIL COMPANY
- UNLIMITED PARTNERSHIP
- LIMITED COMPANY

B. CAPITAL COMPANIES

- LIMITED LIABILITY COMPANY
- JOINT-STOCK COMPANY
- LIMITED COMPANY

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ELEMENTS OF A CIVIL LAW COMPANY CONTRACT

1. SURNAMES OF THE PARTNERS
2. DECLARATION OF PARTNERS' WILL
3. DESCRIPTION OF THE SUBJECT, AIM AND SCOPE OF UNDERTAKINGS
4. NAME OF THE COMPANY
5. SPECIFIED PERIOD OF TIME OF THE CONTRACT
6. SHAREHOLDERS' CONTRIBUTIONS
7. PARTICULAR SHAREHOLDER'S PARTICIPATION IN PROFITS AND LOSES
8. LEGAL REPRESENTATIVES OF THE COMPANY
9. A FORM OF NOTIFICATION OF THE WITHDRAWAL
10. CHANGES IN THE FORM OF THE BASIC CONTRACT

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ELEMENTS OF A LIMITED LIABILITY COMPANY CONTRACT

1. DECLARATION OF WILL OF THE PARTNERS

2. INDICATION OF THE COMMON NAME OF THE COMPANY

3. INDICATION OF THE PLACE AND THE REGION OF CONDUCTING BUSINESS

4. THE SUBJECT AND THE SCOPE OF ECONOMIC UNDERTAKINGS OF THE COMPANY

5. DEFINING THE AMOUNT OF THE EQUITY CAPITAL

6. THE SHAREHOLDERS' CONTRIBUTION

7. THE BOARD OF THE COMPANY

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WAYS OF MAKING CONTRACTS

1. NEGOTIATIONS

2. AN OFFER

3. A MIXED WAY:

   NEGOTIATIONS + AN OFFER

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FORMS OF MAKING CONTRACTS

1. THE FREEDOM OF CONCLUSION OF CONTRACTS (THERE ARE NO BINDING REGULATIONS AS TO THE FORM OF CONTRACTS)

2. SPECIFIC FORMS:

   A. A WRITTEN FORM

   B. A NOTARIAL ACT

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LEGAL CONSEQUENCES IN CASE OF INCORRECTLY CONCLUDED CONTRACT:

- INVALIDITY OF THE CONTRACT
- LACK OF EVIDENCE IN CASE OF A LITIGATION
- SPECIFIC LEGAL CONSEQUENCES ACCORDING TO THE CIVIL LAW CODE

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ELEMENTS OF A CONTRACT

- **INDIVIDUALIZING A CONTRACT BY INDICATING:**
  - *THE PARTIES OF THE CONTRACT*
  - *THE SUBJECT OF THE CONTRACT*
  - *THE REMUNERATION (PRICE)*
  - *THE DATE OF EXECUTION OF THE CONTRACT*
- **ADDITIONAL ELEMENTS**

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TYPES OF CONTRACTS

- **CREATED AND NAMED BY THE LEGAL ACTS:**
  - *NAMED CONTRACTS*

    (a contract for performing a specified task, an order, a contract for a commission sale)
  - *UNNAMED CONTRACTS*

    (a leasing contract, a franchising contract)

- **CONSIDERED UNDERTAKING AN OBLIGATION BY ONE OF THE PARTIES**
  - *CONTRACTS OF OUTCOME*

    (a contract for performing a specified task, a contract of constructions works)
  - *CONTRACTS OF CAREFUL PERFORMANCE*

    (an order, a contract for commission sale)

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ORGANS SETTLE DISPUTES

- **DEPENDING ON THE KIND OF MATTER:**
  - ECONOMIC (DEPARTMENT) COURT
  - LABOR (DEPARTMENT) COURT
  - CIVIL (DEPARTMENT) COURT

- **DEPENDING ON THE IMPORTANCE OF THE MATTER:**
  - DISTRICT COURTS
  - VOIVODSHIP COURTS

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TYPES OF PLENIPOTENTIARIES

- PLENIPOTENTIARIES OF A NATURAL PERSON:
  - A BARRISTER
  - CO-PARTICIPANT IN THE DISPUTE
  - MANAGER OF THE PROPERTY OR THE INTERESTS OF THE PARTY
  - PERSON REMAINING IN A PERMANENT RELATION WITH THE PARTY
  - PARENTS, SPOUSE, NEXT OF KIN, DESCENDANTS AND ADOPTED PERSONS.
- PLENIPOTENTIARIES OF AN ECONOMIC SUBJECT:
  - A LEGAL ADVISER
  - AN EMPLOYEE

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COSTS OF A LEGAL PROCESS

- **COURT FEES**
  - *ENTRY FEE*
  - *CHANCELLERY FEE*
- **EXPENSES**
  - *REMUNERATION OF THE BARRISTER*
  - *TRAVEL EXPENSES*
  - *EARNINGS FOREGONE*

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ELEMENTS OF A PROCEDURAL DOCUMENT

1. DESCRIPTION OF THE COURT, TO WHICH IT IS ADDRESSED

2. DESCRIPTION OF PARTIES AND THEIR PLENIPOTENTIARIES

3. DESCRIPTION OF THE KIND OF THE DOCUMENT

4. ESSENTIALS OF THE MOTION AND EVIDENCE SUPPORTING THE PRESENTED CIRCUMSTANCES

5. SIGNATURE OF THE PARTY OR HIS PLENIPOTENTIARY

6. LIST OF ENCLOSURES

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LEGAL BASE FOR RUNNING A BUSINESS

Creation of a new enterprise, creation of the so-called economic subject has to be preceded by the selection of its organizational–legal form. The selection boils down to the decision on whether we want to be the sole owner or whether we want to create a partnership or company, where the partners–shareholders may assume different legal-organizational forms.

General framework of any kind of business activity is set forth in the stipulations of the Act on Economic Activity of 23rd December 1988 (Off. Journal No. 41, pos 324 with later amendments). According to that act undertaking and running of economic activity is free and allowed to everyone on equal rights, provided that the rules of law are observed. Undertaking of some defined economic activity is sometimes subject to licensing. Granting, refusal and withdrawal of a licence lies within the area of competence of the main or central administrative organ having the jurisdiction over the particular kind of licensed economic activity. Economic activity is the activity in the sphere of manufacturing, building, commerce, and providing of services undertaken for lucrative purposes and on the own account of the subject running such activity. Undertaking of economic activity by natural person and organizational units that are not incorporated is subject—as a rule—on filing the declaration about undertaking such activity in the registration office and entry into corresponding records. The registration organ is the administration office of the city, commune, or city district. The seat of every economic subject should be marked outside. That mark (sign) should contain the name (firm) or the name and surname of the economic subject and a brief description of the economic activity effectively undertaken.

BASIC ISSUES OF RUNNNING A BUSINESS AS A SOLE PROPRIETORSHIP, A CIVIL LAW PARTNERSHIP, LIMITED AND UNLIMITED PARTNERSHIPS, AND LIMITED LIABILITY COMPANY.

I

For sole proprietorships no particular regulations concerning the ways of doing business were developed. The sole owner of the enterprise enjoys full independence and freedom in running his business within the framework set up by the rules being in force. He takes decisions in all matters and bears full responsibility for their outcome.

Not always, however, we want or we can run the business by ourselves. We then take the decision to run the business together with another person or other persons, wetting up a company. When we have to choose the kind of company, we have to take into consideration the circumstances, under which the company (corporation) is going to function. That is why the questions that have to be resolved in the first place are the following: who is going to be the partner and how many partners are going to be there, what is the subject, aim and scope of the undertaking, how large and in what form the contributions (shares) of the company are going to be brought in, etc.

The present rules allow for the establishment of a non-commercial partnership, a general partnership, a limited partnership, a limited liability company (Ltd. in its abbreviated form) and a joint-stock company. A small business may function in the form of a non-commercial partnership, a general partnership, a limited partnership and of a limited liability company. A joint-stock company is always related with running a larger-scale business undertaking, requiring larger financial outlays.

The civil law companies (non-commercial partnership) are created and act according to the rules of the act of 23rd April 1964—Civil Code (Off. Jour. No. 16, pos. 93 with later amendments). The general partnership, limited partnership and limited liability companies (commercial law companies) are created and act according to the rules of the Decree of the President of the Republic of 27th June 1934—Commercial Code (Off. Jour. No. 57, pos. 502 with later amendments).

II

Concluding a contract of a partnership the partners oblique themselves to strive to achieve a common economic goal acting in the prescribed way, in particular by contributing the shares.

A non-commercial partnership is a partnership that conducts, on common behalf a lucrative enterprise of a larger size and not a commercial company of a different type.

Subsequently a limited partnership is a partnership having as its aim running a lucrative business under a common name, if at least one of the partners has unlimited liability in relation to outside creditors, and while the liability of at least one partner (the limited partner) is limited.

A limited liability company is a company concluded with lucrative goals in mind, provided that the laws do not contain any limitations.

The non-commercial partnership, general partnership and limited partnership are considered as personal companies since the personal composition of the partners plays a dominant role in them. The limited liability companies are considered to be capital companies since the base for their existence and functioning is the capital (although the personal factor in these companies plays an important role anyhow).

Every of the above mentioned companies is established via the conclusion of a contract by at least two) partners. The exception is the case of a limited liability company that may be established via filing of the declaration of will of one person, as a single person limited liability company.

III

The contract of establishment of a non-commercial partnership and of a general partnership company has to be made out in writing (for documentary reasons). The contract of establishment of a limited partnership and of a limited liability company has to be concluded in the form of a notarial act; otherwise it will have no legal force. All the above mentioned contracts are subject to stamp duty, besides that those, which were concluded as notarial acts, are subject to the notarial fee.

The non-commercial partnership or, more precisely its partners, have to make an entry into the register of economic activity that is kept by the corresponding city, commune or city district administration office. This entry is subject to stamp duty. On the other hand the general partnership, the limited partnership and the limited liability company have to make an entry in the commercial register that is kept by the corresponding commercial court; the entry of the limited partnership and of the limited liability company has a constitutive character, it means that they are established at the moment of making the entry and not at the moment of conclusion of contract. This entry is subject to a court fee.

IV

The non-commercial partnership, the general partnership and the limited partnership are not corporations (they do not acquire the character of legal persons); i.e., they do not have the capacity to become a subject of right and obligations. The limited liability company, however, has the character of a legal person.

The non-commercial partnership may act under the name that may be composed of the following elements: names and surnames of the partners, character of activity undertaken, eventually an additional nation: "non-commercial partnership." All other companies act under the firm.

The firm of the general partnership contains the surnames of all partners or the surname and at least the first letter of the name of one or several partners with additional notion: "general partnership."

The firm of the limited partnership is made of the surname and at least the first letter of the name or one or several partners whose liability is unlimited and an addition: "limited partnership." The names of limited (silent) partners cannot be included in the firm.

The firm of the limited liability company may be selected freely, it has however, to contain the notion: "limited liability company." The names of persons cannot be placed in the name of the firm without their consent or without the consent of their descendants.

V

The conduct of the matters of the company, i.e., undertaking of decisions, which do not cause direct legal outcomes in the sphere between the company and third parties lies in the competence of:

1. in case of the non-commercial partnership or the general partnership—any partner, unless the contract stipulations put it in a different way.

2. in case of the limited partnership—any partner who is liable in an unlimited way for the obligations of the company in relation to the creditors, unless the contract of the company puts it in a different way,

3. in case of the limited liability company—the board, unless it is not reserved for the shareholders. One has to observe that the board may be composed of persons being the shareholders or other people. If the board is made of several persons, every member of the board has the right to run the affairs of the company. The activity of the board is always subject to control. The control is executed by every shareholder and—if the contract stipulations provide for it by a supervisory organ of the company. The supervisory organs of the company are the supervisory board or the audit board. In the sphere of competence of the supervisory board lies the permanent supervision of the company's activities. The audit board makes an audit of the company after the end of the accounting period.

VI

Taking of external decisions, i.e., representation of the company lies in the competence of:

1. in case of the non-commercial partnership and the general partnership—every shareholder up to the limits to which he is entitled to conduct the affairs of the company, unless the contract stipulations put it otherwise,

2. in case of the limited partnership to the official partners, while the silent partner may represent the company as an attorney only,

3. in case of limited company—the board. Unless the contract stipulates otherwise and the board is composed of several members, the rule is active representation performed by two members of the board or one member together with a signing clerk.

The position of the signing clerk exists in the commercial law companies. The signing clerk is a particular kind of an attorney entitled to perform all kinds of activities related to running a lucrative undertaking in the court and out of court.

In the general partnership and in limited partnership the establishment of the procuration os subject to agreement of all the partners having the right to run the affairs of the company. In the limited liability company the procuration may be established by the board of the company, it is subject to the agreement of all the members of the board. The procuration may be withdrawn if the general partnership and in the limited partnership by any partner having the right to run the affairs of the company, and in the limited liability company this right may be withdrawn by any member of the board. Granting and withdrawal of the procuration has to be filed in the commercial register.

VII

The non-commercial partnership, the general partnership and the limited partnership do not own their assets, in spite of the utilization of the notion "property of the partnership" and actual existence of a separate property, since its legal owner is not the company but all its partners together and indivisibly as its co-owners. Another situation prevails in the limited liability company where there are two distinct kinds of property, i.e., the property of the company and the property of every shareholder.

The shares of co-owners are parts of every of the above mentioned companies.

In the civil law company the share of the partner may be the contribution of property or other rights or provision of services, including provision of any kind of labour for the sake of the company.

In the limited liability company the shareholder's contribution is understood as a certain amount of money or defined value "in kind" brought into the company as a shared property. The object of the contribution "in kind" may be some movable goods, real estate, financial assets etc. having some definite value. Labour or personal provision of services cannot be considered as a contribution "in kind", neither remuneration for services provided during the process of creation of the company. The contributions of the shareholders form

the equity capital of the company. The shareholders, defining the amount of the equity capital, declare the form and the amount of contributions that they are going to bring in to the company, and then divide this capital into shares. The amount of the equity capital cannot be small than 40.000.000 zl, and the value of the share cannot be smaller then 500.000 zl.

VIII

In a civil law company all shareholders participate in profits and losses in the same proportions, regardless of the kind and value of contributions brought into the company, unless the contract stipulations provide for a different solution. That contract may relieve some of the shareholders from the losses, but it is not possible to exclude the shareholders from his right to the profits. The share in profits is negotiable, contrary to the share in the property of the company, which is not negotiable during the validity of the contract of the company. Division and distribution of profit takes place only after the dissolution of the company. However, when the company was concluded for a longer period, the shareholders may demand the division and payment of profits at the end of each accounting year.

In the general partnership the rule prevails that every partner has the right to equitable share in profits regardless of the kind and value of contributed share and regardless of the question whether he has to participate in covering the losses of the partnership. The contract between the parties may, however, provide for inequitable participation of the partners in profits. Exclusion of the partner from the participation in profits may infringe the principles of social coexistence and invalidate the contract of the partnership in this part. The share in profits is negotiable in contrast with the share in the ownership of the company, which is not negotiable during the period of the company contract. The principle is that the shareholder participates in covering losses in the same proportion as he participates in the profits of the company. The contract of the company may, however, define the participation of the shareholder in losses otherwise, i.e., it may stipulate that some of the shareholders do not participate in losses. The shareholders, who contributed, as their share, their labor only, do not take part in covering losses in case of

doubt. It means that such shareholders participate in covering the losses of the company only when the contract stipulates that. The division and payment of all the profits may be realized at the end of the accounting period. The partners may require the payment of interest in the amount of 4 percent of his share, even if the partnership had incurred losses.

In the limited partnership, unless the contract stipulates otherwise, the partners regardless of then being official or limited partners, have the right to equitable participation in profits, while the limited partner participates in the losses only up to the amount of his contributed share, and the official partners to an extent corresponding to his participation in profits. Besides that the participation of the shareholders in profits and losses is defined according to the principles applied in the case of the general partnership, presented above.

In the case of the limited liability company the profits are divided among shareholders proportionally to their shares in the company. The amount of shares determines as well their right to the property of the company after its liquidation. The contract of the company states, whether the shareholder may have one or several shares.

In the later case the shares have to be equal and indivisible. Unless the contract of the company stipulates otherwise, the share may be sold or used as a collateral. The division and distribution of profit may be realized after preparation of the annual balance sheet. The shareholders are not allowed to earn interest on their shares.

IX

In case of the non-commercial partnership, all partners in solidarity are liable with all their wealth, and not with the common property of the company, i.e., with their so-called property of the partnership. Joint liability binds the partners to the extent of their participations in the partnership only and in relation to their activity. That is why the partners, who joined an existing partnerships are not liable at all for its obligations that were entered upon earlier.

The former partner, who resigns from participation in the partnership, is not, however, relieved from his obligations undertaken during his participation in the partnership.

In case of the general partnership all the partners are personally for the obligations of the partnership without regard to the method of defining of their participation in the profits and losses of the partnership. The partners are liable not only with the common property of the company, but with their personal property as well. The personal liability of the partner, who left the partnership continues, but is limited to the obligations of the partners undertaken before his leaving. The partner in such partnership, is liable for the obligations that appeared before his entering the company, which is a different situation than prevails in the case of the non-commercial partnership.

In the limited partnership some partners are personally liable for the obligations of the partnership without any limitation, other partners personally liable for the obligations of the partnerships in a limited way only, up to the amount of a given sum called the sam of the limited partnership. That sum does not have to be bound with the amount contributed by the official partner to the partnership, and the value of his share and the amount of that sum may be different. The partners are liable in solidarity for the obligations of the company. In the limited liability company the rule is that the shareholders are not personally liable for the obligations of the company. The limited liability company is liable for its obligations with its own property. In the execution the company proves to be inefficient, the members of the board are personally and in solidarity liable in relation to the creditors for its obligations.

X

The change of the personal composition of the non-commercial partnership, the general partnership and the limited partnership may be realized either because of the adherence of a new partner or a withdrawal of a partner from the company. These steps may happen in the form of change of the basic contract of the partnership while observing the form required for the given type of partnership. In case of the limited liability company the adherence of a new partner in the company may happen by filing a declaration about his adherence to the company and taking over of his share in case of extension of the equity

capital of the company. This declaration has to be made in the form of a notarial act, otherwise it will have no legal force.

The partner may withdraw from a non-commercial partnership upon notification. If the company was established for an unlimited period, the partner may withdraw from such a company, withdrawing his share at least three months before the end of the accounting year, unless the contract provides for a shorter term of notification. In case of important reasons the partner may notify his withdrawal from the company not observing the notification term and without regard to the fact, whether the company was concluded for an unlimited period of time. In the case of the civil law company there is no provision for exclusion of a partner from the company. If important reasons for the dissolution of the company exist, the dissolution of the company may be realized by the statement of the court issued on demand of any of the partners. Withdrawal of a partner from the company does not automatically result in the dissolution of the company, unless the company was made of two partners only.

In the case of general partnership and the limited partnership every partner may file an advance notice about his withdrawal from company concluded on the base of a contract having an unlimited validity in time at least 6 months before the end of the accounting year, unless the contract provides for a shorter term of notification. The notification of withdrawal from a partnership by a partner results in a dissolution of the partnership, unless the contract of the partnership provides for further existence of the partnership with other partners, or when the other partners adopt a resolution about further existence of the partnership before the notification period elapses. Every partner may demand the dissolution of the partnership by the court because of important reasons. If an important reason of one partner, the court may, on the suggestion of the remaining partners, rule, that the partner, on whose part an important reason applied, withdraws from the company. In such a case the partnership will continue its existence in a reduced form. Besides that, if during the last 6 months one has failed to execute obligations on the movables of the partner, the personal creditor of that partner who, on the basis of legal executing title gained acquisition of claims due to the partner in case of his withdrawal or dissolution of

the company, may notify the nullification of the contract of the company at least 6 months before the end of the accounting year, unless the contract provides for a shorter period of notification.

The shareholder of the limited liability company may sell his share in the company. Selling of one's share is not obliged to file a notarial notification about adherence to the company and acquisition of the purchased share. The contract of the company may provide for permission of sale of the share under the condition of agreement of the company or limit the freedom of its sale in another form. The company may also be dissolved on the base of the decision of the court on demand of the shareholders or the authorities of the company if the realization of the aim of the company becomes impossible or if other important reasons resulting from the relations in the company apply, or on demand of the minister justice-attorney general, if the activities of the company infringe legal norms, endanger the interest of the state.

XI

In case of liquidation of the civil law company the partners should pay from its property all the debts of the company, and repay all the contribution brought in by its partners. The remaining surplus is being divided in proportion to the participation of the partners in company's profits. If the property of the company does not suffice to pay the debts, the partners should cover them in proportion of their participation in losses. After the dissolution of the company the partners are still liable in solidarity for its debts.

In case of the general partnership and the limited partnership its property is first of all destined for the repayment of the obligations of the partnership. The remaining property is divided among the shareholders according of the partnership, and in case of their lack the partners are given the value of their contributions according to the proportion in which they participated in the profits of the partnership.

In case of the limited liability company the division of property that remained after covering or securing the interests of the creditors may be realized in the form of cash payments to all the shareholders. It is also possible to give them some objects in kind, but

it is not possible if at least one of the shareholders does not agree. The distribution of property among the shareholders is realized according to the some principles as those, which were applied during the distribution of profits. The contract of the company may, however, provide for different forms of distribution of property.

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A CONTRACT

A contract is an important legal act aiming at making, changing or dissolving legal relations between equitable parties. By contracts the parties organize mutual rights and obligations according to their expectations.

The reformed economy is characterized by a steadily growing demand for full and reliable information on civil law contracts, the ways of their conclusion and constructing their contents as well as on the results stemming from already concluded contracts.

The opinion has its confirmation in the changes taking place in the economic system, in the increase of self-dependence of economic subjects and the changes that take place in the business law system.

The system of legal rules organizing the economy has been substantially changed in recent years. It tends towards annulation of rules influencing the subject in an arbitrary way (imperative rules) and replacement of them by discretionary or semi-imperative rules and also towards a broad annulation of discretionary rules in order to provide greater freedom to the economic subjects in making contracts. This freedom is of course neither full nor unlimited. First it is limited by acts and then by the general clauses of the civil law code (socio—economic purpose of law and the rules of social coexistence—art. 5 of the c.c.).

The freedom of conclusion of contracts becomes a rule in the economic law. Cases when the conclusion of contract is obligatory are fully incidental in the present—day law and concern only the state-owned economic subjects or pathological economic situations (i.e., the obligation of concluding an agreement by a monopolist—the sole supplier of a good or service).

The civil law code is the basic legal act having importance for the determination of rights and obligations of the parties. Its regulations (art. 66-72) precisely point out various real situations and subjects' actions which lead to creation of legal consequences in contractual form.

AN OFFER AND NEGOTIATIONS

The most significant act described by the code is the offer.

The offer, according to the contents of the articles 66 §1 of the c.c. is the will to conclude a contract expressed by the offeror and addressed to the other party (offeree) containing important stipulations of the eventual future contract.

The offerer should indicate in his offer the period during which he would wait for the offeree's decision. However, indetermination of the deadline by the offerer is not decisive for the validity or invalidity of the offer but creates consequences stipulated in the above mentioned §2 of the civil code. If the duration of an offer is not expressed and the offer is submitted in the presence of a second party it will not bind unless it is accepted immediately. The same refers to the situation in which an offer is made by telephone or any other means of direct communication.

The period of validity of an offer submitted in other way (by letter, messenger, etc.) will elapse if the offeree does not respond to it in a normal procedure without an unjustified delay.

As it was mentioned above an offer is an ex parte (one-sided) expression of willingness addressed to another person. Nonetheless there is an exception from the rule of specified offeree in the civil code.

Art. 543 of the c.c. states that putting a thing out in a place destined for selling with a quotation of price should be considered to be a sales offer. Thus it is an offer addressed to unspecified offerees, to the general public. A modified of an offer is a counteroffer. It is an acceptance of an offer by the offeree with a stipulation of change or amendment of its contents (art. 68 of the c.c.). It is then an offer made by the other side. So there is a change in the offeror's and the offeree's roles. There is another term connected with the concept of an offer—"negotiations."

Negotiations are the way of concluding a contract when the subject is complicated and requires a lot of adjustments (i.e., a ship-building contract, construction contract, etc.).

The point in negotiations is that according to the law (art. 72 of the c.c.) a contract is treated as concluded when the parties reach an agreement on each provision of the

contract. Thus together with the expression of the willingness of concluding a contract a list of "litigious" points is made. When the agreement is reached on all the points from this list it is assumed that the contract is concluded and binding for both parties.

According to law all publicly made actions (commercials, price lists, catalogues, advertisements) are not offers. They are only invitations to submit offers to a person that makes her "public presentation."

The acceptance and conclusion of an offer may be done in many ways.

The most simple one is an ordinary acceptance of the contents of an offer ("agree" "accept" and similar expressions). We assume here of course that a counteroffer is not made.

Another way of accepting an offer is to begin its realization instead of expressing an answer. An accurate example here is the functioning, so popular in other countries, of the mail-order selling houses. The seller turns to the public and invites offers by publicly made actions (catalogues, price lists). A person who is inspired by the contents of such actions and places an order is called the offeror.

The offeree (mail-order selling house) does not formulate his answer verbally but concludes the offer by making the ordered thing.

There was an interesting litigation at an arbitration committee in 1970 (verdict of the Main Arbitration Commission dated 20.05.1970, PUG 2/71, item 841). An enterprise ordered from a supplier 1400 pieces of socket wrenches. In return the supplier delivered 400 such wrenches. The customer received them and after some time turned to the supplier for the delivery of the remaining one thousand wrenches. In the arbitration proceedings the ordering enterprise lost the lawsuit because it was stated that there had been no obligation between the parties to conclude a contract. So the following legal situation appeared: an offer of purchasing 1400 pieces of socket wrenches, offeree's counteroffer of delivery of 400 pieces, offeror's acceptance of the counteroffer. So the parties did not enter into a contract on 1400 pieces at all.

There is no institution of tacit acceptance in the Polish law. The silence of the second party would be the expression of her will only if it were previously stated in the

agreement (for example in a general agreement on cooperation) or if it stemmed from an explicit legal regulation.

Art. 386 of the c.c. states that "if a legal person performing economic activity receives an offer of entering into contract within the scope of its activity from a party with which it is in permanent relations the lack of answer is treated as the acceptance of this offer."

There are some other legal regulations concerning detailed matters which may refer to a tacit acceptance (e.g. insurance contracts, some back contracts).

At the end of this point—short description and legal evaluation of a real case:

Publisher X sends to a certain person a book together with a quoted price. Attached leaflet informs that either the book should be sent back on the publisher's cost or the price should be paid. Silence will be treated as a conclusion of the contract.

In this case silence will not be treated as a conclusion of a contract as it does not result from any former regulations (previous agreement, legal regulation). The publisher can not charge the customer with the inconvenience connected with the dispatch of the book. He may collect it himself if he wants.

Precise description of important stipulations of the promised contract becomes a pivotal element of the preliminary contract. Not to say more about this matter we could point out that the important stipulations of the contract are the following: indication of the parties of the contract, its subject and a period of time during which it should be performed. Referring this to particular contracts we can for example say that in case of a sales contract the important regulations of the contract are the following: indication of the subject of sale and selling price; in case of a contract for a specified task: description of the task, in case of a construction-works contract: description of the object of these works. As it can be seen from the above examples the description of important provisions of a contract may have different scope. In some contracts there will be more of them and in the others there will be less—sometimes it is only one provision.

A PRELIMINARY CONTRACT

The reliability of economic activity and planning of economic development is strengthened with a civil code institution called: preliminary contract. It is defined in the 389 art. and subsequent articles of the civil code.

Within the framework of the preliminary contract—one party or both parties oblige themselves to conclude the contract (promised contract) and simultaneously precise the important stipulations of that contract and the period of time in which it should be concluded.

The preliminary contract is made in a form of a promised contract the parties can vindicate its conclusion by a verdict of a court.

If the court on the base of the concluded preliminary contract brings out a verdict. That there is a reason for conclusion of a promised contract then the verdict of the court replaces the statement of a party ("Legally valid verdict of a court or a state arbitration commission which states an obligation of a given person to make an indicated statement of will replaces this statement" art. 64 of the c.c.). In such case we have a situation of a concluded agreement from both material and legal points of view.

When the preliminary contract does not fulfil the conditions reserved for a promised contract it will not oblige the parties to conclude a contract. However the parties take mutual responsibility for damage which they suffered expecting the conclusion of a contract (art. 390 §1 of the c.c.). The liability of the party which declines the conclusion of contract is not full—confer art. 361 §2 of the c.c. It does not include the unachieved benefits expected by the sufferer. It is confined only to the so called "negative contractual interest" which comprises only the costs effectively incurred by the sufferer (what he spent expecting the conclusion of a contract, e.g.—preparation of warehouses, entering into other contracts, costs of letters, telephone calls business trips, etc.).

The preliminary contract is undoubtedly an advantageous instrument for the parties in their economic activity. However it should be used carefully observing requirements as to the contents and form. It can not be applied to an uncertain market as it may be "a trap" for one of the partners.

LEGAL CHARACTER OF REMARKS PUT DOWN ON INVOICES

In this part of our discussion some words should be devoted to legal character of various remarks put down on invoices. It particularly refers to remarks concerning the dates and terms of payment.

An invoice is a call for payment. In the eye of law it is an ex parte statement of will of the issuer of the invoice. And as such it is not a contract. So a remark on an invoice stating: "payment is cash within 3 days" will not have any negative consequences for the recipient of the invoice. According to the civil law code (art. 455) the debtor should do the payment immediately after receiving a request to do so. The expression "immediately" is commonly understood as "without unjustified delay, in a normal procedure." In practice it is two weeks.

It, however, the recipient of the invoice wrote on it e.g., "I accept the payment conditions" on something similar, then it would become a contract and would be binding for both parties.

Thus referring to the contents of the invoice in court is only reasonable when it is something more than a unilateral expression of the issuer's will.

FORMS OF A CONTRACT

Under the form we understand the way of the contract was concluded.

Generally there are no binding legal regulations as to the form of contracts. Few exceptions that oblige the parties to observe some particular forms result from the necessity to secure the reliability of economic process or the interest of the state (e.g., in contracts on the sale of an enterprise or real estate).

From the point of view of reliability of the economic process the business contracts should be concluded in writing. However the lack of this form does not cause their invalidity. The contract is valid but the parties should be conscious of the illusory protection of their interests in a possible litigation.

Art. 75 §1 of the c.c. stipulates that, a legal contract concerning an object, whose value exceeds Z1. 20 million should be concluded in writing. A lack of a written form causes that in a litigation concerning the property rights stemming from such a contract the court of law will not consider as evidence neither the testimonies of witnesses nor the interrogation (examination) of the parties.

The idea of the legislator can be expressed in the following way: the parties enjoying the freedom in making contracts can discretionally shape their relations, including their form.

However they must take into account that in case of a litigation in court. The court will not accept uncertain evidence in such valuable cases (exceeding Z1. 20 million). It will then most probably dismiss the claim of the plaintiff.

So the written form does not only have a decorative function.

However the court will accept the testimonies of witnesses or interrogation of the parties if one of the parties gives the facts an appearance of verisimilitude by presenting a written document (receipt, bill, warranty, or, if both parties agree, to hearing of evidence).

The court will also do this if it considers it proper in consideration of particular circumstances of the case.

On the other hand in cases connected with an amount smaller than 20 millions the hearing of evidence will be carried out regardless of the above mentioned premises. It is because that even if the court misinterprets the gathered evidence the "weight" of the case is not so great that the court abstain from carrying out the proceedings.

CONTENTS OF A CONTRACT

The knowledge about shaping the contents of concluded contracts is a very important skill useful in the economic process.

A correctly concluded contract should contain both the elements necessary for individualization of the contract from the point of view of the parties' needs and additional elements being very often a repetition of contents of some legal regulations. The first ones are significant from the point of view of proper shaping of rights and obligations. The aim of the latter ones is to expedite the contractual process itself.

After all not everyone knows the law so well to be conscious of the legal consequences deriving from concluded contracts (e.g., those defined in the civil code). Therefore it is sometimes good to quote them.

The following elements can be considered as those which necessarily individualize a contract:

1. indication of the parties of the contract
2. indication of the subject of the contract
3. indication of the remuneration (price)
4. indication of the date of execution of the contract

As it was already mentioned earlier the greatest importance should be attached to the first two elements. The indication of renumeration—which is necessary in a sales contract—is treated more liberally in a contract for performing a specified task where it is not necessary for the validity of the contract (art. 628 of the c.c.).

The indication of the contract execution date is also not necessary because, according to the rule of art. 455 of the c.c., if the date is not indicated the debtor should execute the contract immediately after receiving the request to do so.

A precise formulation of various contractual provisions from the point of view of the interests of the parties expedites of course the economic process and minimizes the possibility of the eventual litigation proceedings.

However neither too broad repetition of the civil law imperative regulations in the contracts, nor deciding matters that in any way cannot be settled otherwise is advisable (e.g., that in case of a litigation the matter will be submitted to a court in Poznan).

TYPES OF CONTRACTS

The rule of discretion in concluding contracts allows the parties to shape freely the contractual relations from the point of view of the parties' interest.

They can either use "ready made" contracts described in the civil code or construct new forms of contracts by compiling the elements of different contracts provided that they observe the legal regulations in force.

In general the law distinguishes the named contracts—which are created and named by the legal acts and the unnamed contracts resulting from socio—economic practice.

Such types of contracts as: contract of selling contract for performing a specified task, order, contract of purchasing agricultural produce, licencing contract and so on are examples of named contracts.

An unnamed contract which has made some career in recent years is the leasing contract. Although it is not described in the regulations of the civil code it is mentioned "by name" without insight into its contents in the fiscal law. At the border of the above mention distinction there are mixed contracts. They are contracts in which the parties compiled the elements of various named contracts. For instance the contract of using the services of a hotel in which there are elements of hire contract (room), contract for performing a specified task (washing the guest's clothes, contract of hire of services (buying tickets) as well as contract of sale (breakfast) can be mentioned here.

From the practical point of view it is useful to distinguish the contracts of outcome from the contracts of careful performance.

The contract of purchase of agricultural produce, the contract for performing a specified task, contract of constructions works are the examples of the contract of outcome.

In these contracts one of the parties undertakes an obligation to reach an indicated result and is liable (has to pay damages) in case of non—performance.

An order, a contract for commission sale, agency contract are examples of the careful performance contract.

In this type of contract one of the parties undertakes an obligation to act with proper care in order to reach an indicated goal.

In case it is not reached there is a lack of legal basis for the liability for damages (unless proper care was not observed).

There are some other distinctions between contracts in the civil law theory but they seem to be important in theoretical considerations only.

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ORGANS WHICH SETTLE DISPUTES

In case, when the debtor does not meet his obligations voluntarily, the creditor may execute the realization of his obligations with the use of legal pressure. The organs which settle disputes arising in relation with the conduct of business are the common courts.

Depending on the kind of subject matter they will be considered in different departments (e.g., civil, economic, labor). There is a two—level system of settlement. The district courts consider all affairs except those, which are reserved for the jurisdiction of the voivodship courts. If the matter was settled in the first instance by the district court, the party may appeal to the voivodship court, while the second instance in case of the sentence of the voivodship court is the court of appeals.

Decision on the question, which court is right for the settlement of a given matter is very important. It is then indispensable to comment the stipulations of the code of civil procedure (k.p.c) concerning the material jurisdiction (which court) and domiciliation (place of the court's location).

PLENIPOTENTIARIES

The parties may appear in court personally or via established plenipotentiaries. The legal activities performed by the plenipotentiary within the limits of empowerment result in direct effects for the represented party. The plenipotence is, or as a rule, given as general plenipotence or the right to conduct certain affairs, or more rarely, to conduct only certain procedural activities. The plenipotence may allow to grant the so called substitution, i.e., replacement by another advocate during one session. The plenipotence may be granted by the mandator in a written or in an oral way, during the session of the court by declaration made by the party and written down in the protocol.

The plenipotentiary may be:

1. of a natural person
    a. a barrister
    b. co-participant in the dispute
    c. manager of the property or the interests of the party
    d. person remaining in a permanent relation with the party
    e. parents, spouse, next of kin, descendants and adopted persons.
2. of an economic subject
    a. legal adviser
    b. employee.

COSTS OF A LEGAL PROCESS

There is a rule that the failing party is obliged to cover the costs of the process on demand of the employee. The costs of the process are made of the following:

1. court fees
    a. entry fee
    b. chancellery fee
2. expenses
    a. remuneration of the barrister
    b. travel expenses
    c. earnings foregone.

In case, when the party proves that it does not have sufficient resources to cover the costs, the court may relieve it from the obligation of covering the court fees totally or partially.

PROCEDURAL DOCUMENTS.

Every procedural document should contain

1. description of the court, to which it is addressed
2. description of parties and their plenipotentiaries
3. description of the kind of the document
4. essentials of the motion and evidence supporting the presented circumstances
5. signature of the party or his plenipotentiary
6. list of enclosures.

   a. list of addresses of courts (their departments)
   b. table of entries
   c. table of barristers' remunerations
   d. scheme of a statement of claim

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