"SUCCESSFUL ENTREPRENEURING"
SEMINAR MANUAL

NOTE:

This manual is designed to provide accurate and authoritative information in regard to the subject matter covered. It is provided with the understanding that neither the author nor the publisher is engaged in rendering legal, accounting or other professional services. If legal or other expert assistance is required, the services of a competent professional should be sought.

PUBLISHED BY:

David Petrie Associates,
16 McFeeters Drive,
BOWMANVILLE, ON. L1C 4G5

In this manual, the masculine and feminine are used interchangeably. The masculine should be construed as including the feminine; the feminine should be construed as including the masculine. In addition, the singular and the plural may also be used interchangeably, and each should be construed as including the other.

1 INTRODUCTION 1
1.1 Purpose of Seminar Series 1
1.2 Getting Started 2
1.3 Decision Making 5
1.4 Organization Types 7
1.5 The Psychology of Your Own Business 11
1.5.1 The Basics 12
1.5.2 Two Models 12
1.5.3 Getting Feedback 13
1.5.4 Acuity Drills 15
1.5.4.1 Visual Acuity (15)
1.5.4.2 Auditory Acuity (15)
1.5.4.3 Kinesthetic Acuity (15)
1.5.5 Difference Detection 16
1.5.6 Advanced Acuity and Difference Detection 16
1.5.7 Changing Personal Representations 16
1.5.7.1 Walking with Grace and Power (17)
1.5.7.2 Breath of Life (18)
1.5.7.3 Circle of Excellence/Anchoring (18)
1.5.8 Advanced CPR 19
1.5.9 Ecology 20

2 MARKETING 21
2.1 Marketing Research 21
2.1.1 General Market research 21
2.1.2 Target Market Selection 24
2.1.3 Specific Market Research 26
2.1.4 On-going Research 28
2.2 Marketing Plan 30
2.2.1 Product 30
2.2.2 Price 31
2.2.3 Promotion 32

2.2.4 Place ... 35
2.2.5 Positioning ... 36
2.3 Marketing Success ... 36

3 FINANCE ... 40
3.1 Definitions ... 40
3.2 Financial Analysis ... 41
3.2.1 Profitability ... 47
3.2.2 Liquidity ... 48
3.2.3 Stability ... 49
3.2.4 Efficiency ... 50
3.2.5 Growth ... 52
3.3 Analyzing Finances ... 52
3.4 Money in Business ... 53
3.4.1 Where to Get Money ... 54
3.4.2 How to get Money ... 57
3.4.3 Your Proposal ... 59

4 HUMAN RESOURCES ... 71
4.1 Behaviour Models ... 71
4.1.1 Leavitt's Cause/Motivation/Behaviour Model ... 71
4.1.2 Maslow's Hierarchy of Needs ... 72
4.1.3 Herzberg's Hygiene/Motivators Theory ... 73
4.1.4 McGregor's Theory X/Theory Y ... 74
4.1.5 Maclelland's Three Needs ... 75
4.2 Hiring Employees ... 76
4.2.1 Develop a Job Description ... 76
4.2.2 Develop a Personality Description ... 76
4.2.3 Develop Recruitment Sources ... 78
4.2.4 Selection ... 80
4.2.5 Training ... 81
4.3 Motivating Employees ... 81
4.4 Employee Appraisals ... 83
4.4.1 Criterion ... 83

4.4.2 The Appraisal Form
.... 84
4.2.3 Administering the Appraisal 86

5 MANAGING PROCESSES 88
5.1 Kinds of Processes 88
5.1.1 Continuous Process 88
5.1.2 Job Shop Process 89
5.1.3 Project/Custom Process 89
5.2 Problem Diagnosis 90
5.3 Designing Your Process 91

6 STRATEGIC AND BUSINESS PLANNING 93
6.1 Mission, Goals and Philosophy 93
6.2 Objectives and Strategies 95
6.3 The "Continuous Improvement" Approach 100
6.4 The Written Plan 101
6.4.1 Contents 101
6.4.2 Revising the Plan 103

7 CONCLUSION 105
7.1 The Systems View 105

1 INTRODUCTION

This manual has been prepared as supplementary material for CDI's professional development program, entrepreneurship option. It covers the same material you will be hearing during the course of this seminar series, and it is our hope that it will provide a valuable reference source to you in the future.

The manual is organized into seven sections, and corresponds to the seminar presentation:

- Introduction
- Marketing
- Finance
- Human Resources
- Managing Processes
- Business Planning
- Conclusion

We hope that you enjoy this seminar series, and that this manual will help you in whatever business you undertake.

1.1 Purpose of Seminar Series

As we move into the 21st century, it has become clear that many of Canada's future economic hopes rest with entrepreneurial business people. Yet, there is very little information oriented towards the Canadian scene which is readily accessible to them. Many of the seminars, books and media presentations either do not deal with managing an entrepreneurial business, or treat it as a side issue. And, of course, much of the available material is too expensive.

In presenting this seminar series, we have drawn on our fifteen years of expertise to give you the most relevant, up to date information on successful entrepreneuring available today. We have done this because we believe very strongly in the importance of entrepreneurs to the economy. It takes determination and bravery to start a business, and we want to provide whatever help and encouragement we can.

Much of this seminar series focuses on starting your business. Not only is getting off to a solid, well-researched start important to your future success; the wise owner/manager reviews her progress and plans every six to twelve months, to see that she is both on target and keeping up with market trends. To do this, she uses the same tools and techniques which went into the original business plan. For this reason, we are emphasizing the planning process.

When you have completed this seminar, you will be ready to confidently start your own business. While there is no guarantee of success, using the techniques you will learn in this series will materially increase the odds in your favour.

1.2 Getting Started

The first decision you must make is "What business should I be in?" More than anything else, the answer to this question will determine how successful you will be.

In actual fact, there are three parts to this question:

< Should I be in business?
< What business would I be comfortable in?
< What business could I make a profit in?

Let's deal with each part separately.

To determine whether you should be in business, it is helpful to look at the characteristics of an entrepreneur. First and foremost, he is a risk-taker. No business venture is a sure thing, and the entrepreneur recognizes this. That does not mean he plunges blindly into business. Rather, he assesses the chances, determines how much personal risk to take, and does as much preparatory work as possible to minimize the chances of failure.

An entrepreneur is committed to her business. She is willing to spend as much time on it as is necessary. This may mean getting only four or five hours of sleep a night or a period of time. It may mean paying less attention to family and friends. It may mean working when you'd rather be doing something else. But the entrepreneur knows the rewards of success, and this keeps her going.

The entrepreneur is, finally, determined, optimistic and resourceful. With eyes firmly fixed on success, he keeps working and smiling even when fate has delivered a swift kick to the business. And no matter how bad things look, he is willing and able to reason his way back to a successful course. He always has an idea to turn things around, or knows where to go to get help.

If you can truthfully tell yourself that you meet these criteria, then you have a future as an entrepreneur.

Once you know whether you "have what it takes", you need to consider the type of business to be in. The first question to ask is "What would I be comfortable in, and enjoy doing?" It is important that you define a RANGE of business activities you would enjoy undertaking. As an entrepreneur, you will be spending many hours on your fledgling business, so you might as well like it. However, since your favourite activity may not be profitable enough for you, you should have other alternatives which give you almost as much pleasure.

Why the emphasis on enjoyment? Apart from the considerations mentioned above, it is easier for you to "go the extra mile" for a business you like. It is much harder to be emotionally committed to the success of an enterprise when you're in it only for the money. Entrepreneurs who have eyes only for dollars soon find that there aren't enough of them to compensate for hours spend and sacrifices made in the cause of their business. These entrepreneurs soon fail.

How to determine what you enjoy? Think of all your skills and interests. Many of your skills would be appropriate to any business: communicating, decisiveness, clear thinking, cooperativeness and so on. However, some of them could provide business opportunities, too: ability to work with your hands, good colour sense, mechanical aptitude, extremely analytical thinking, ability to carry out research, etc. Do not overlook specific technical skills, either. If you are a trained auto mechanic, accountant, programmer, data entry person, lawyer or whatever, include that fact on your personal inventory.

What interests do you have? Gardening, playing cards, sailing, skiing, camping, other sports, reading, listening to music, working with figures, driving, decorating, movies and woodworking, to name a very few, are all interests that could provide a business opportunity. Once you become aware of them as interests, you have taken the first step towards basing a business on one of them.

Now consider where your skills and interests overlap. Those areas form your range of business opportunities. Don't be surprised to find that you still have quite a long list; after all, part of the entrepreneur's stock in trade is her wide interests and talents.

Finally, you are ready to decide what business would be most profitable for you. Once again, this is a two part task. First, you must decide what is "profitable enough", and then you must rate the various opportunities you have come up with.

Your definition of profitability will rest on several criteria. First, how long are you willing to subsidize your business, and how much money are you willing to invest. Next, are you looking at a full time involvement, or a part time one? If you want to start out part time with the intention of eventually working on your own full time, what is your deadline? Lastly, how much money do you need to take our of the business to live, and how much would you like to be able to take out?

The answers to those questions will tell you what profit level you want or need from your businesses, and will help you in your final determination of the business that is right for you.

In order to make that determination, you will need to analyse the opportunities you've come up with. The best way to do this is to determine what the market is for that kind of business, see whether it is growing, shrinking or holding its own, and find out about your potential competition: how many there are, how large they are, who they appear to be marketing to, and how successful they are.

Once you have done all this, you will not only know what kind of business is most appropriate for you; you will also be well on your way to planning the success of that enterprise.

1.3 Decision Making

Having come this far in this manual, you are now face to face with the single most essential activity of any business person: decision making.

Whether you are running General Motors, the Red Cross, or a Beckers store, most of your time should be taken up with making decisions on questions, problems, opportunities or every-day operational alternatives. Should you order in more stock? Is there a market for the new service offering you've developed? Should you take that $50,000 contract? Is now the time to hire a new salesperson? Should you incorporate, form a partnership, or be a sole proprietor? The kinds of decision making opportunities you will be faced with are endless. It is well worth your while to understand the decision making process.

The model we are presenting here has ten steps. They are:

- Determining what decision you need to make;
- Developing your decision criteria, by which you will recognize the "best" decision;
- Deciding how much of your resources (time, money, effort) you will commit;
- Developing the relevant information;
- Analyzing that information;
- Preparing a list of alternatives;
- Choosing the "best" alternative;
- Planning your implementation process;
- Putting your choice into effect;
- Evaluating the success of your chosen alternative.

There is a great deal of literature on decision making, and there are a number of other models, but the one presented above is, we have found, a very useful and easily understood one. Let's look at each of the steps.

When you determine what decision you must make, it is important that you examine the problem, question, or opportunity in great detail. Make sure that you are addressing the central issue, not something which, while it may seem obvious, is really only a symptom or side issue.

Once you know the decision to be made, you need to be able to recognize the "best" alternative course of action. You need to have decision criteria. So ask yourself: "If I were to make this decision, what would I see by way of results?" Those become your decision criteria. To be successful, the alternative would have to produce the results you have identified.

Now comes a tough part: allocating your resources. How much of your available time, effort and money are you willing and able to commit to making this particular decision? You may have heard the expression "Paralysis by analysis." It probably refers to people or organizations who have large amounts of resources to devote to making each and every decision and who, as a result, spend far too much time and energy on matters which are relatively irrelevant. You, on the other hand, will look at the importance of the decision, the amount of time available, and the size of your resource pool, and decide based on that, how much of your resources you will commit. This is your budget, and you should stick to it.

The next step is searching out the RELEVANT information. The test for relevance is: does this information deal directly with the decision I need to make, or is it only tangential or completely unrelated? Time spent with irrelevant data is time wasted, so be sure you are dealing with only important information. It is also wise to set a limit to the time you spend getting information. Data gathering can go on virtually for ever, since you never have all the information you need. So determine what is relevant, then what is most important, then where it can be found, collect it and summarize it.

Analysis is the next step. Look at the information you have gathered in light of the decision you need to make. Does it have a positive or negative effect on your decision? Use some of the tools and techniques discussed in subsequent sections to help you carry out a good analysis.

As you analyse, some alternative solutions will begin to suggest themselves. Make note of them and, when you are ready, test them, and any others you have thought of, to see if they address the central issue on which you must decide. If they do, they are viable alternatives. Flesh each one out, to see how it would work. This will give enough information on each to enable you to make your choice.

Selecting the "best" alternative should be easy. It is the one which most completely deals with the central issue, most closely satisfies your decision criteria, and which can be implemented with the least net cost and greatest potential profit, where profit is a consideration.

Implementation design involves splitting the decision into major tasks to be accomplished, dividing each task into easily achieved sub-tasks, deciding what resources you will assign to each task (time, people, money, etc.), developing a schedule for implementation and deciding how you will know whether you have successfully achieved your goals (building in "milestones" or measurements of interim progress).

Then, you have nothing to do but get on with implementing your plan. Roll up your sleeves and begin work.

Finally, evaluation is sitting down and seeing whether your decision was successfully implemented. Did it do what it was supposed to? Why, or why not? Did it create other opportunities for decision making? What are they? And with that question, you are ready to start the whole process over again.

1.4 Organization Types

There are three basic types of organization with which we will deal in this manual:

< Proprietorship
< Partnership
< Limited company (corporation)

Each type has various pros and cons, and in deciding which type is right for your enterprise, you should consider your specific situation. It is not the place of this seminar or manual to suggest the form of organization which is appropriate for you. If you have any doubts, you should discuss the matter with an accountant and a lawyer.

A proprietorship is the most easily started business. You need only fill out the Partnership/Proprietorship Registration form and pay a fee (at this writing, $53.50) to the Ministry of Consumer and Commercial Relations. Forms may be obtained from the Ministry's Toronto office, or from your local Land Registry Office.

A partnership is also relatively easy to set up, since it can be registered in the same way as a proprietorship. However, since there is the potential for disagreement or dispute, and each partner is completely responsible for the acts of the other partner(s) as they relate to the business, you should also prepare a Partnership Agreement. This agreement specifies how the partners will share profits or losses, how decisions will be made, what decisions an individual partner can make unilaterally, and how disputes will be resolved, among other things. A Partnership Agreement is a very technical legal document, and you should seek the help of a lawyer in preparing one. If you choose not to have a Partnership Agreement, you will be bound entirely by the Partnership Act of the Province of Ontario. This Act may resolve matters between you and your partners in ways which none of you would like.

There is also a special kind of partnership known as a "limited partnership". Limited partnerships are a reasonable way of securing money for your business, but you should know what you're getting into before you rush out and form one. In a limited partnership, there must be one general partner (that's you) and one or more limited partners. The limited partner's liability (financial responsibility for the business) is limited to the amount of his or her investment. The general partner is totally financially responsible for the business. If the worst happens, and the business becomes bankrupt, the limited partner loses only the amount s/he had invested. The general partner, on the other hand, is required to make good for all the debts of the business, without limitation.

A corporation (limited company) is formed by filing Articles of Incorporation with the Ministry of Consumer and Commercial Relations (for Ontario Corporations). Costs include a government filing fee, a corporate name search using the NUANS system, and legal fees. Although a lawyer may be used in preparing your filing, you can also purchase blank Articles, share certificates and other necessary forms as part of a kit offered by the International Self Counsel Press. Costs for the kit are around $20, and it can be bought at most stationery stores and book stores. ISCP also publishes a guide to self-incorporation in Ontario (also Canada, and most other provinces), which provides detailed explanations on the various Articles, plus suggests appropriate wordings and offers guidance on completing other forms. This book, too, retails for about $20.

While this manual has dealt with privately controlled Canadian corporations (that is, corporations with only one, or a very few, shareholders), you may, depending on your financial needs and resources, decide to "go public", or at least attempt to attract a larger investment base. A public corporation is one which is traded on a stock exchange. It is heavily regulated by the government (through the Ontario Securities Commission, if you list on the Toronto Stock Exchange; other provinces have their own regulatory bodies), and requires the assistance of a licensed securities dealer for listing and issuance of shares. Going public is a very expensive business, and should only be considered if your need for equity capital (money contributed by owners, which normally does not have to be paid back) is very great.

Most people, when incorporating, invite friends and family to buy shares. However, some people, needing more equity than can be raised from these sources, offer shares to any potentially interested parties. This can be done without the aid of lawyers, securities dealers or accountants, although we recommend at least the use of a lawyer familiar with the process, as there are government requirements which apply to corporations with more than 50 shareholders, or where a formal offer of shares has been made to more than 75 people. Remember that, here as elsewhere, ignorance of the law is no excuse - if you make an error because you have tried to save a few dollars by doing it yourself, you will have to live with the consequences of that error.

The chart below summarizes some of the pros and cons of each form or organization.

In deciding which form of organization is for you, you must take into consideration your projected income, the amount of money you will need to start and run your business, your own talents and limitations as a manager, and your own personal values. You should also carefully consider your tax and estate situations, and the kind of business you are forming.

You should also carefully consider the issue of limited liability. Liability, as used in this sense, refers to financial responsibility, and there are two areas where it is a consideration: the debts of the business, and lawsuits involving the business. As a business owner, you will normally be considered personally liable for your business debts. In the case of a proprietorship and a partnership, this is true of all debts. However, with a corporation, things are a little different. The business is a legal "person", and is liable for its own obligations, unless you, the business owner, agree to be personally liable, or unless the law considers you to be personally liable. For instance, if you require bank financing for your business, you will almost always have to sign a personal guarantee. This is a document promising the bank that, while it must first look to the assets of the business to satisfy its demands, it can come to you to make up any shortfall. In addition, you may also be asked to sign a "collateral mortgage" on your house, if you require a line of credit for the business. A collateral mortgage means that, if the business can't pay off the line of credit when the bank asks it to, instead of being limited to making a demand on you for the total amount still owing, the bank instantly has a mortgage against your house. This will be explained in more detail later, when we look at financing your business.

CHART 1-1
ORGANIZATION TYPES

PRO	CON
Proprietorship	
< Easy to set up	< Dies with proprietor
< Uncomplicated taxes	< Unlimited liability
< Easy reporting	< Difficult getting money
< Can be dissolved easily	< Difficult getting managerial expertise
Partnership	
< Easy to set up	< Unlimited liability of each partner
< Easier to raise money	< Each partner liable for actions of all others
< Broader pool of managerial talent	< Dies with any partner
Limited Company (Corporation)	
< Limited liability	< Expensive to set up
< Easier to attract money	< Complex tax situation
< "Immortal" - does not die with owner(s)	< Complex reporting and regulation
< Easier to attract managerial talent	< Limited confidentiality

The other big attraction of limited liability used to be protection against lawsuits. If a user of the products or services you sell were to come to harm from using them, s/he could sue the business. If the business was a corporation, the person suing was limited to whatever insurance the corporation had, plus any assets it had, to satisfy her/his judgement. It was possible, but fairly difficult, to sue the business owners and officers. This situation has changed so that suing the individuals behind the business is much easier, and the person who has suffered harm now has better access to your assets as the business owner or officer. The same is now true of personal injury lawsuits, where an individual slips and falls while on your business premises.

An additional area to consider is employment law. Ten years ago, business owners and officers were protected against lawsuits by employees for things such as wrongful dismissal. Now, however, the law considers that the employer is equally responsible. In situations where a business closes down without adequate compensation to employees, the government of Ontario provides such compensation, and then goes after the owners, officers and directors of the company to collect the money. By law, they are not limited to persons who were owners, officers and directors at the time; they can go back two years and get judgements against individuals previously in positions of responsibility as well.

As you can see, this is a very complex area. Before making a decision about which type of organization is right for you, you must weigh the pros and cons of each alternative. A good way of doing this, and getting some exercise of your mental faculties at the same time, is to apply the problem solving techniques discussed previously. Set up your decision criteria, evaluate each form of organization in light of those criteria, and make your decision. You should get some good, up to date tax and legal advice before making any decision at all.

1.5 The Psychology of Your Own Business

There is a great deal to understand about the psychology of being in business as an entrepreneur, and there are many different approaches to mastering it. One approach, developed in the US in the middle 1970's by Richard Bandler and John Grinder, is essentially a communications-driven model. It looks at communication as the mainspring of success in life, and has grown into a fairly comprehensive system. We present below some theory and exercises aimed at helping you communicate better with yourself and others, thereby increasing your risk of success in business and in life.

1.5.1 The Basics

The quality of your communication will determine the quality of your life. This applies to all your communications: with family, friends, business associates, acquaintances and, most importantly, yourself. The more clearly you can communicate, the better things will be for you.

This brief communications training, combined with the material we have covered under the "Strategic Planning" and "Business Planning" sections of the course, will give you the basics you need in order to communicate successfully with yourself and with others. By actually following up and doing the things we have talked about, you will make a major difference in the results you achieve in your life.

1.5.2 Two Models

The first model is one for getting what you want. It pre-supposes that you can communicate well. It is a four step model:

1. Know what you want. Know about it in a way which is sensory specific, using external and *internal* representations, with visual (seeing), auditory (hearing) and kinesthetic (physical feeling) components.

2. Take action. Action is a form of communication. If you say you want something, and don't take action to get it, you are communicating that you didn't really want it in the first place. So, when you take action, take action which is designed to get you what you want.

3. Get feedback. Most of us, to some degree, can do the first two steps. What we ignore, often, is the fact that the world continually provides us with information on how we're doing. This information is called "feedback," and successful communicators know how to recognize even subtle feedback. You are going to learn how to do this today.

4. Change what you're doing to take the feedback into account. Feedback by itself is useless. To take advantage of it, we need to understand what it is telling us about our actions, and modify those actions accordingly. Then, it's back to step 2, until we get what we want.

The second model is useful for dealing with times when you get stuck. It is a three step model:

1. *Experience* where you are. If you are dealing with another person, get into rapport with him or her. If you are the only person involved, get into rapport with yourself.

In either case, really experience where you are - get feedback through getting into rapport.

2 *Interrupt what you are doing.* When we get stuck, it is often because we have been doing something without taking into account the feedback we are getting. Sometimes, we get stuck because our actions are not designed to lead us towards our outcomes. In either case, our actions have become fairly strong programs for us, and we need to interrupt them so we can change tracks and move towards what we want.

3 *Carefully define our desired outcome.* Part of "stuckness" is that what we want is unclear or not very motivating. We need to define, in sensory specific terms, internally and externally, using a full VAK representation, exactly what it is that we want. An that bring us back to step 1 of the previous model. What do you know!!

1.5.3 Getting Feedback

The world is always giving us feedback. Usually, the feedback starts off quite subtly, and gets stronger and stronger, until we finally notice it. The best thing we can do is to get the feedback early enough that we avoid the serious consequences associated with waiting too long.
People are a great source of feedback. People operate with two systems: the autonomic, and the central, nervous systems. The autonomic system controls things like breathing (whether we do it, and the rate and kind of breathing), while the central system controls things like getting up and walking out of a room. Most of us can get feedback from actions caused by someone's central system fairly well. To communicate successfully, however, we need to get the feedback earlier - when it is being generated by the autonomic system.

Autonomic feedback cues are things such as skin colour (flushed or paling), muscle tone, head position, breathing rate and location, lip size, eye position and movement, body position, and so forth. Most of these things happen on "auto-pilot" for most people. However, if you can inventory them and find out what they mean, you have a very powerful way of getting feedback.

Another way of getting feedback from another person is by getting into rapport with them. Simply notice what they are doing with their physiology, and do the same things yourself. With practise, you will be able to feel the same way they do. This gives you some very direct feedback. Of course, rapport has other uses, as well. It is a truly fast way to build bridges with other people.

The basic skill set required to get feedback (either through noticing autonomic cues or by getting into rapport) is called "acuity." Being "acute" means that you can notice and take action on very small changes that people make as a result of both autonomic and central system stimulations. At one time, we were all very acute. As children, we depended on our ability to notice changes in the world around us. In fact, when humans existed in hunting and gathering societies (before technology), our very survival depended on our ability to notice very subtle feedback. With the development of technology (and of our ability to use it, which develops as we grow up), we have needed acuity less, and so we drop it from our skill sets. The good news is, it's really easy to regain acuity skills, and it requires no investment of money, no special equipment - nothing other than a very small amount of time and the willingness to pay attention.

1.5.4 Acuity Drills

We can be acute in all of our representational systems (visual, auditory, kinesthetic, olfactory (smell) and gustatory (taste)). The exercises below are useful for visual, auditory and kinesthetic acuity.

1.5.4.1 Visual Acuity

Work with a partner. Have that person re-experience a pleasurable event that has occurred in her life. Simply notice what she does with her physiology (this is called "calibration"). When you feel you know what physiology is associated with this event, let your partner know. She will shake the experience off. Next, have her re-experience an unhappy event. Again, calibrate to her. When you feel you know the physiology associated with this event, let your partner know. She will shake off the experience.

Now, ask your partner to pick one of the two experiences at random, and go back to it. Identify which experience she chose. Do this correctly three times, and switch.

1.5.4.2 Auditory Acuity

Work with two other people. Close your eyes tightly. Have the fist person make a sound, and identify herself. Calibrate to that sound. Then, have the second person make the same sound, again identifying herself. Calibrate to her sound.

Ask your two partners, at random, to make the sound. Identify which person made the sound. Do this correctly three times, and switch.

1.5.4.3 Kinesthetic Acuity

Work with two other people. Close your eyes tightly. Have the first person touch you (respectfully), and identify herself. Calibrate to that touch. Then, have the second person touch you in the same spot in the same way, again identifying herself. Calibrate to her touch.

Ask your two partners, at random, to repeat the touch. Identify which person touched you. Do this correctly three times, and switch.

1.5.5 Difference Detection

Work with two other people. Have one person sit perfectly still, directly opposite you. Calibrate to her appearance. When you have a good mental picture of her, close your eyes. The second person will change three things on the first one. When the changes are made, she will tell you to open your eyes. Identify the three changes which were made. Switch.

1.5.6 Advanced Acuity and Difference Detection

You will find that you will master basic acuity and difference detection fairly quickly. To keep developing your skill level, make the differences smaller and smaller. For instance, for the visual acuity drill, ask your partner to re-experience a time when she was content and a time when she was happy. Continually push your edge.

Outside of the classroom, notice how people are breathing. Look at their faces, and notice the changes that take place there. Calibrate to their postures. The more you notice, the better your acuity skills become.

1.5.7 Changing Personal Representations

Back on page 1, I mentioned that the way you communicate with yourself is most important. We tend to communicate with ourselves in at least two ways: through "self-talk," that running commentary we maintain on events as they happen to us, and on ourselves and our abilities; and through the way we represent past, present and future events to ourselves. This communication can be positive and supportive of what we are doing, or it can be unsupportive. The decision is ours to make.

How can you change your communication with yourself? Represent events differently by using CPR ("change personal representations"). CPR interrupts the way in which you have represented things to yourself and allows you to develop a representation which is more supportive. Although there are a variety of ways of doing CPR, we'll explain four in these notes.

1.5.7.1 Walking with Grace and Power

This can be done either by yourself, or with a coach.

Begin by representing, in your body, the way you interpret a specific event. If that event makes you feel sad, stand, breathe and act the way you would if you were feeling sad about that event. When you become aware of the specifics of the event, disassociate from the feeling by imagining it is a second skin and taking it off. Step away from that spot.

Begin to walk in a figure eight. Walk in a resourceful, relaxed fashion, and really exaggerate your walk. Keep your head up, your arms and legs moving, pick up your feet, etc. If you are working with a coach, have her make suggestions.

Once you have hit a really resourceful stride, begin to change your old representation. As you walk past the spot where you "left" it, bring the old representation inside you into your own personal editing room. Do this one component at a time - visual, auditory and kinesthetic. Once you have it in your room, change it to be the way you want it to be. If you want to represent it as a powerful event, imagine yourself feeling powerful - how does that feel? What would it sound like? What would it look like? As you change each of the VAK components, "project" them back on the spot where you were standing. Make sure that your new representation is a resourceful, supportive one. Throughout this process, make sure you maintain your resourceful walk. Have your coach help you. When you are constructing it, use all of your own resources, and those of any person you have heard of, seen, or know personally. If need be, you can use the resources of fictional people.

When you have projected this new, resourceful representation of the event, go over to it and re-associate with it by pulling it back on like a second skin. Enjoy this new feeling.

To test it, imagine yourself back in the original event. If you feel the same as before, do more CPR. If you feel differently, or more resourceful, decide whether that is enough for you. If it is, you're finished. If it isn't, do more CPR until you feel the way you want.

1.5.7.2 Breath of Life

Work with a coach.

The set-up is the same as for the previous exercises: represent the choice point or event to yourself in your body; disassociate from it when you begin to get the specifics of the event; step away from the disassociated representation.

Sit in a chair, and breathe in a resourceful fashion. Imagine yourself in a situation where you were resourceful, and breathe that way. Your coach places her hands on your shoulders or on your stomach and back, and models your resourceful breathing with her hands. Once you have both established the resourceful breathing pattern, begin to bring the representation into your internal editing room, one component (V, A or K) at a time. Your coach will help you maintain your resourceful breathing. When you have the entire representation in your room, change it as you did for Walking with Grace and Power, and "project" it back to the spot where you had left the old representation.

Once you have projected it over, make sure it is sufficiently resourceful by "looking" at it while maintaining your resourceful breathing. If it isn't, bring it back in and change it again. If it is, go back over and re-associate with it.

Test it as before: go back to the choice-point and notice how you feel. If you are sufficiently resourceful, great; if not, do more CPR.

1.5.7.3 Circle of Excellence/Anchoring

Work with a coach.

Do the set-up as for the other exercises.

Stand up and close your eyes. Your coach will ask you to remember a time when you were very resourceful. When she sees your eyes move downwards, or your breathing change, she will anchor it by touching you lightly on the shoulder. Repeat this three more times (oftener, if you want), with your coach anchoring each time on the same spot.

When you have anchored your resources, your coach will then project a golden circle on the ground in front of you, and will ask you to step into it. This is a "Circle of Excellence" which was developed using your own resources. Slowly bend down and pull the circle up over your head. Be conscious that the circle will act as a powerful resource for you when you need it. Experience that resource while your coach again anchors it on the same spot.

Open your eyes, and "look" over at your old representation of the choice-point. If it now "looks" sufficiently resourceful to you, re-associate with it. If not, anchor in more resources and then re-associate with it.

Test it as before.

1.5.8 Advanced CPR

If you have picked a small event, doing CPR on it once should be sufficient. However, for larger choice-points, you will find that doing CPR on them once or twice a week is more beneficial, at least until you have built up experience with CPR.

To intensify the quality of your CPR results, take time before the exercise to write down a full internal VAK representation of how you want to feel and look, and what you want to hear, and use that information when you are changing the representation. This makes a big difference in the effectiveness of the CPR, especially with major choice points.

Feel free to use CPR on future events, as well as past and present ones. We represent future events to ourselves in exactly the same manner as we do with past events. If you have ever feared giving a speech, you know this is true. Even for things we have never done before, we still have an internal representation of what that will be like. Does that representation support us? If not, by doing CPR, we can at least have choice about how we will feel when the time comes.

If you find yourself stuck at any given point in your life, you can use the CPR exercises to change how you feel. Simply do the exercises without the set-up. Just disassociate from the way you feel, do the CPR, and re-associate. There is no need to test, since you'll know immediately how you feel.

In addition, the Circle of Excellence is an exercise you can do by yourself at any time, just for the sake of feeling good. Simply perform the coach's part yourself. Anchoring yourself is a small challenge: calibrate to yourself, and notice when your eyes move downwards - then anchor. If you wait until you are fully conscious of the resource state, it will be much less effective than if you anchor when your eyes move down.

1.5.9 Ecology

The techniques in these notes will make you a very powerful individual. There are a few things you need to be aware of, and they fall under the heading of ecology.

First, as you acquire skill at these exercises, you will change. Remember that there is no free lunch, and that you will pay a price for the change. People will ask you about what happened to you? In some cases, they will want you to "change back." Be very careful of yourself in these situations. Be sure that you are willing to pay this price. In exchange for it, you get much more choice and flexibility in your life, but some people find the price too high.

Second, you may feel tempted to use these exercises to help others get what they want. Be very careful that (1) what you are helping them get is what *they* want, and not what you want for them; (2) be sure you have sufficient acuity skills to notice whether they are getting into any difficulty; and, (3) until you have built up a lot of track time with the exercises, don't use them with someone else unless it is on a fairly minor choice point.

In short, be respectful of yourself and of others. If you aren't it will come back on you with a vengeance.

2 MARKETING

Marketing is the process of getting your product or service from your place of business to your potential customers. It involves many decisions. To market properly, you will have to do some research, some analysis and you will have to put the fruits of your work into action. In this section, we will discuss all the phases of the marketing process.

2.1 Marketing Research

Marketing research is the collection of relevant information about your clients or potential clients. Its purpose is to help you target one or more specific markets and successfully exploit the opportunities they present.

In order to be successful, you will need to design your research project properly. This means identifying the information you need or would like to have (often two different things), determining good sources of information, deciding how far you are willing to go in collecting data and setting a reasonable time limit on the project.

Be aware that some of the information you would like to have may not be available through published sources. If this is the case, you must decide how valuable this data is to you and what effort you are willing to make to get it. You must also know how to relate it to information which is published.

You may wish to separate your research project into two parts: general information and specific information. In the general research you are looking primarily for market opportunities. At its end, you will be able to select one or more target markets and focus your specific research on them.

2.1.1 General Market research

The purpose of carrying out general market research is to provide you with enough valid information to select your target market(s). You are trying to get the "big picture" of what is available to you.

We can start by collecting information on the total "universe" of customers available to you. If you expect to be dealing with people as individuals (instead of with other companies or organizations) you will be looking for some or all of the following demographic information:

< *Geographic distribution.* For your market area (local, regional, province-wide, national or international), where are customers located? Are there any large concentrations on which you should focus?

< *Economic.* For your market area, what are the income ranges? You will likely be concerned with per capita and household or family incomes, although you may also want data on per capita disposable income. It is often a good idea here to get some comparative information as well. This could tell you how much better or worse than the national or provincial averages your market areas are.

< *Social.* Information on family size, marital status, education, residence type, occupation and so on. Again, comparative data may help you.

< *Physical.* This concerns age and sex distribution for your market areas. Again, comparative information helps.

If, on the other hand, you will deal with other organizations, your information needs will differ.

< *Product or service type.* What are the various kinds of organizations which could use your product or service? With which of them could you be effective?

< *Geographic distribution.* For your market area(s), where are client organizations located? As with distributions of individuals, are there any large concentrations of possible clients? In addition, how important is geographic location in your chosen field?

- *Primary and secondary size criteria.* How will you divide client organizations up, and which criteria will you use as your primary and secondary "dividers"? You may divide organizations by number of plants/branches/outlets, size of plant/branch/outlet, number of employees, sales volume, geographic areas served, number of product/service lines or even net worth.

Once you have sufficient information on the total available market universe, you will need something to help you select which group(s) you will target. Frequently, information on competition can help you make this decision.

For each geographic area in which you expect to be active, collect the following information:

- *Number and size of competitive firms.* The strength of the potential competition may influence your decision on how and whether you wish to operate in a specific area.

- *Markets served.* First, look at the geographic market areas served by possible competitors. If you are competing against national firms or chains, you may be dealing with high-profile competition which is potentially very hard to beat.

  Next, look at "demographic" markets served. Here you may have to rely on observation and informed judgement rather than specific knowledge. No firm draws 100% of its clientele from its target group, so you will have to exercise care in making this determination.

- *Marketing program.* Normally, you will have to infer a competitor's marketing program from advertising, client base and visible promotion activities. As with demographic markets served, you will have to be very cautious here.

  A marketing program has four parts: product, promotion, price and place. We will discuss this in section 4.2.

- *Policy.* What specific policies do your competition have that affect your choice of policy. Look at credit-granting, sales terms, returns, refunds, guarantees or other items relevant to your business.

You have now completed your general information gathering, and are ready for the next step.

2.1.2 Target Market Selection

A good first text is to see if there is a market not currently being served, or being under-served, by competition. If there is, you should make an effort to discover a reason for this. There are normally five reasons:

< The market is drying up, so that it does not justify a continuing marketing effort.

< The market is too small to be serviced by the competition.

< The market is so new that the competition is unaware of it (this does happen!). This is a tremendous opportunity for a small enterprise.

< The costs of entering the market are too high. This may be the result of dominance by one large firm which can afford to price you out of existence, or a market so widely distributed that it is impractical to serve it.

< No product/service acceptable to the market has yet been developed or adapted.

If there is little competition because the market is too new or too small, you should decide whether you can economically and profitably service it. You will need to prepare what is known as a break-even analysis (see Appendix 4-1 at the end of this chapter) and then make some assumptions about probable sales. It also helps to try and project the growth potential in the market. A market which is only marginally profitable today may grow so large in a couple of years time that it can be exploited very profitably by the first firms to service it.

You may wish to enter a shrinking market, but you should do so with care. A shrinking market offers little opportunity for growth because customer loyalties have already been formed. By its very nature, it is not a long term proposition; once a market has begun to dry up, it frequently does so quite rapidly. Finally pricing may be so low for a shrinking market that you will be unable to earn a decent return on your investment in your enterprise. However, if the market is being abandoned by competitors, and it appears that it will not shrink beyond a certain point, there may be an opportunity for you to move in and secure a base which will allow you to grow into other areas while maintaining a steady stream of income.

A market for which no acceptable product/service has yet been found may present you with an opportunity for innovation if you can rapidly develop or adapt a good product/service. As with any un- or under-served market, however, you should attempt to find out why no one has been able to exploit the market. If you decide to service it, you may have to wait some time before you become profitable because of the long introduction times often associated with this type of innovation. Your competitors may be able to shed some light here, if approached properly.

Needless to say, there is no point in trying to service a market with high entry barriers unless you have substantial financial resources at your command, and the market shows promise of being extremely profitable.

If there is no obvious market niche for you to fill, you will have to do some further assessment of your competition. You will need to determine some or all of the following:

- *Is there any market target where the competition is weak?* Clues to this may come from product quality, customer satisfaction, number of competitors, or size of competitors.

- *Is there any market where there are only one or two large competitors who view the market as "gravy"?* If so, those firms may not be willing to fight for their market share, so you could have an easy entry.

- *In a market where the competition is plentiful and strong, do competitors attach any importance to identification with a local market, or are they content to serve it from a regional/provincial/national base?* If identification with the local market is valuable, there may be a niche for a small, locally-oriented enterprise.

- *Is there a market where the competition is poor at innovation?* If so, and if you are prepared and able to innovate, you may be able to force an entry. Clues to un-innovative competition include products/services which, although they could be changed, have remained essentially the same for some time; a marketing effort which does not reflect today's concerns and methods; or tow or three dominant firms acting as an oligarchy. A very important clue is the reputation of the competitive firms. Are they known as innovators? How do they treat innovative ideas which come up through the organization? How responsive are they to customer needs?

  A word of caution is in order here. Make sure that you do not confuse lack of innovation with a situation where no innovation is possible (see Appendix 4-2, Product Life Cycle). If you do, you may have found a quick way to go broke.

If you still have not found a suitable niche for your enterprise, you will have to determine which target group(s) are least well served, or where there is room for more competition. Through this process, you should be able to select a target market. Your next task is to research that market in depth.

2.1.3 Specific Market Research

Specific research is aimed at finding out as much as possible about your chosen target market(s) so that you will be able to successfully reach them.

You may view the result of your specific research as a composite client profile or picture. At the end of this step, you will know who your typical client is. You will be looking for the following information:

< *WHO are your customers?* Specifically and in detail, you will need to develop demographic information on them. Go deeper than you did when you were gathering information on the total available universe. You are now gathering data which you can use to reach a specific group, not just select it.

< *WHAT are they looking for in a product/service?* Not just physical properties, but features which are linked to benefits. Benefits are the desired outcomes that people expect when they buy goods or services; features are the logical supports for the benefits.

< *HOW do they buy?* Do they purchase on impulse, without checking competitors (a "convenience" purchase); do they compare your product/service with others (a "shopping" purchase); or will they seek out a specific product after careful deliberation but without shopping for it (a "specialty" purchase)?

< *WHERE do they buy?* At what physical location is the purchase decision made? Will they come to your premises, or will you have to go to them? Where should you locate to ensure your customers will come to you? Is location even a factor?

< *WHEN do they buy?* Do customers purchase at a specific time or times of the year (seasonality)? Do they have a preference for different days of the week, or different times of the day? How often do they buy (cyclicality)?

- *WHY do they buy?* What are their motivations, needs or goals in making a specific purchase? What causes them to decide against another product or service? What influences act on customers in the purchase decision: peers, family/friends, boss, competitors, etc.?

Obviously, at this stage of your market research, you will not want to limit yourself to published sources of information. They only provide a very limited depth, while you are searching for a substantial amount of relevant data. You want material which is specific to you in your situation. This means that you will have to talk to prospective customers. You may want to try out your product or service on some of them to get their reactions to it. They may even suggest modifications to your offering which would make it more widely acceptable. In any case, you will be in a much better position at the end of this step to communicate your message to your chosen target group(s).

A survey of the kind we are discussing need not cover thousands, or even hundreds of individuals or organizations. A sampling as small as thirty or forty will reveal trends and preferences, although it will not normally give you statistically accurate data. However, statistical accuracy is not the point. You are looking for the trends and preferences to guide you in forming your market plan. How many surveys is enough? There is no quick and easy answer, but let the amount of money you are risking in your business guide you. If you are only risking $1,000 or so, and this is an easy amount for you to lose, you won't do as many surveys as if the $1,000 represented a large portion of your disposable cash or credit, or as you would if you were risking tens or hundreds of thousands of dollars.

The information presented so far in this chapter has been directed at those starting new ventures. However, market research is equally important to those already in business. Before we discuss the marketing plan itself, let's look at existing enterprises.

2.1.4 On-going Research

If you have not already gone through the previous research process, and are not sure what your market is, you are probably wasting or misdirecting some of your marketing effort. You should, therefore, do your initial research.

However, if you did research at the outset of your venture, you are likely to be much more efficient. You can increase your efficiency even more by reviewing your data every year or so to see if you are still "on target".

On-going market research is concerned with changes or trends which have developed in your market. You will want to evaluate the following:

< *Demographics.* What changes have occurred in your market universe and in your target market? How significant are they? Is your market shrinking? Is it stagnant?

< *Competition.* Are there any new players? How much of a threat do they pose? Has the competitive approach changed since your last evaluation? What are the changes?

< *Client profile.* Do your current clients still reflect your client profile, or have there been any changes? What is the nature of the change? How important is it?

< *Market share.* What is your current market share? Has it grown, shrunk or remained the same? How does this tie in with your goals? How does it tie in with your predictions or expectations?

< *Product.* Does your product or service still meet the needs it was designed to? Should it change? How is it perceived in the market place?

< *Advertising/promotion.* How effective are your advertising and promotion efforts? Do they convey the message you want them to? Do they reach the right audience?

< *Economic conditions.* What has changed? Is the change for the better or worse? What are the current projections? How do they affect your business? Are the changes which have/will occur important?

In deciding whether the changes which have taken place are important, you will also need to account for them. If your clientele has changed, why has that change taken place? Likewise, if there is an upsurge in the number of competitors you face, how can that be explained?

Once you have accounted for the changes and have decided which are important and which should be addressed, you are ready to make alterations to your marketing plan.

2.2 Marketing Plan

The marketing plan which you will develop will tie in all of the research work you have done. It will have five sections: Product; Price; Promotion; Place; and Positioning. Each of these areas involves some further analysis and decision making on your part.

2.2.1 Product

What specific product(s) are you offering? Consider the type of product or service, its style, the number of products/services, the quality and, if appropriate, production schedules.

From your specific market research, you will have gotten some feedback on how your product/service is perceived and, possibly, on how it could be improved. It is at this time in your decision making that you must determine what use you will make of that information. To do so, you will need to assess your capability to make changes to your offering and weigh that against what you expect to gain by doing so.

From the consumer's point of view, each product or service is a package of benefits, both physical and psychological. Determine which of these benefits is most important to your target group(s) and should, therefore, be stressed in your promotion campaigns. You may also want to evaluate the possibility of developing related products or product lines that fulfil the same or similar definition of benefits package. This can be a low cost, low risk way of expanding your offering to a larger target group.

Finally, look at your product in terms of its probable life and its intended buyer type. Is your product a durable one (one which lasts for a considerable period of time, such as an automobile) or is it non-durable (one which can be used up, such as food)? Are your buyers consumers, industrial/business, or governmental? By making these generalizations, you may be able to identify and use techniques and tools developed by other enterprises in similarly defined fields.

At the end of this process, you will have determined which product/service (or line of products or services) you will offer to each target market group; the frequency of purchase of the product/service; and the way you will define the product/service for each target.

2.2.2 Price

In setting your pricing policy, you need to consider a number of factors. These are summarized below:

- *Legal.* Are there any legal constraints on what price you can charge? Couriers, for instance, cannot charge less than several times the first class postage rate for a similarly sized letter or parcel. You cannot conspire with your competitors to set a price for a specific good or service. You may be required to collect, as part of your price, certain duties or taxes which must be remitted to some level of government (GST and excise taxes on tobacco and alcohol products are examples).

< *Cost-price-volume.* This is fully discussed in Appendix 4-1, Break Even Analysis. To summarize here, you know that you have certain costs. Your selling price affects the number of goods or services you can sell. It also affects the profit you can make. A break even analysis can tell you what the relationship between these three variables is, and how a change in one affects your overall profitability.

< *Margins.* It costs you a certain amount to product a product or service. You sell it for a different amount. The difference between your cost and your price, expressed as a percentage of your price, is your margin.

In deciding what your margin should be, you will need to look at industry practise, your overall pricing strategy and your position in the distribution chain (see "Place", below).

< *Overall pricing strategy.* You have four basic possible strategies: high price/low volume; low price/high volume; price leader; or price follower.

A high price/low volume strategy, also known as skimming, usually implies a high quality or prestige product or service on which you can make a large margin. Cadillac follows a skimming strategy, since it costs General Motors very little more to produce a Cadillac than another model of a similar size; but Cadillac is a prestige product. Therefore, a higher price is charged.

A low price/high volume strategy is appropriate to a product which is relatively undistinguished from its competitors, or which is almost a commodity. Here, the aim is to add only a small margin, but to make profits by selling a large quantity of your product/service. McDonalds and Kleenex both follow this strategy.

A price leader is one who sets the price which all competitors follow. General Motors is reputedly the price leader in passenger cars. It is unusual for a small enterprise to be a price leader because it does not have the influence or the financial backing to force other, larger companies into line.

A price follower, on the other hand, is a firm which adjusts its prices to match its competitors. Many smaller enterprises who are unable to successfully differentiate their products/services fall into this category, along with some larger companies in industries with recognized price leaders.

You may also wish to use one pricing strategy during the introduction of your product or service and another once it is established. Frequently, you will see a product introduced at a low price until it gains some market acceptance. Then, the price is raised, sometimes substantially.

The purpose of this part of your marketing plan is to allow you to determine how you will price individual products or services, and to make you aware of the specific consequences of your chosen strategy. Normally, to be effective, your strategy should be consistent. You wouldn't ordinarily adopt a high price/low volume strategy for one product or service and a low price/high volume strategy for others. This confuses your market about how you see yourself, and will frustrate your efforts to communicate with them.

2.2.3 Promotion

A promotion strategy looks at the various ways available to you to communicate your message to your target market(s). Many people think that two of the aspects of promotion, sales and advertising, are all there is to marketing. As you have by now realized, this is not so. Advertising and sales are just part of an overall marketing program.

If you think of promotion as communication, you will have a good idea of the various available options.

< *Advertising.* If you pay to have a message placed in print or broadcast media, you are advertising. A good ad should tell something of the benefits of the product or service, convey your enterprise's philosophy (if that is relevant) and entice the potential buyer to contact you for more information. With the exception of a special king of advertising, knows as direct response, you should not expect your ads to sell any of your products or services. Ads merely generate curiosity and an inquiry.

< *Sales promotion.* This category includes coupons, premiums, contests, samples, point-of-purchase displays and direct response. Typically, sales promotions are intended to give a potential buyer an inducement to purchase. Coupons and contests

offer a prospective customer money, either through a reduction in selling price or the chance to win a cash or merchandise prize. Premiums give buyers a gift or the promise of a gift for making a purchase. Samples offer a chance to experience the product's or service's benefits without actually purchasing it. Point of purchase displays are colourful come-ons to a person who may be ready to buy, or at least in a location where s/he could buy.

< *Direct response.* This is a different kind of advertising. It is a print or broadcast ad, or a letter, which asks a prospect to become a customer. It asks him/her to buy. It normally lists the emotional and logical reasons, the benefits of a purchase and asks for an order. Magazine subscriptions, book clubs, cars, vacation trips, clothing, household appliances (especially kitchen appliances), collector plates, coins and stamps, and seminars have all been sold by direct response advertising. Be warned, however: as exciting as this idea sounds ("All I do is place the ad, and then the orders come flooding in" is the way some people view direct response), the response rate can be as low as 3%, and as high as 5%, depending on the quality of your ad and the nature of your offer.

< *Publicity.* The main vehicle of most publicity campaigns is the press release. It is sent to media outlets within your marketing area, and tells them something newsworthy about you, your enterprise, or your product/service. Hopefully, it will result in an editorial, news article, or interview in which you are presented in a favourable light to members of your target group(s). It is beneficial in that, because it is not paid for, it appears to be much more reliable and unbiased than advertising.

< *Sales.* The art and science of making personal contact with prospective buyers and converting them into actual buyers. The sales process has many different models; the one presented here has seven steps:

    < *Prospecting.* Identifying likely customer candidates.
    < *Qualifying.* Seeing if candidates have the need, desire and ability to buy your offering.
    < *Initial contact.* Introducing yourself and your sales offering.
    < *Personal meeting.* Getting better acquainted with your prospect and her/his motives for buying.
    < *Demonstration.* Showing off your product or service and its benefits to your prospect.
    < *Closing.* Asking the prospect to become a client. Here is where you will find

you deal most with objections.

< *Follow-up.* Ensuring your client remains satisfied.

For most retail businesses, advertising performs the prospecting and qualifying tasks because its asks individuals to identify themselves as prospective customers. However, even there, entrepreneurs are supplementing their advertising with a full sales process, starting with prospecting.

< *Packaging*. The way in which your product or service is packaged serves to tell something about it and you. Packaging includes not only labels and their content, but colours, use of typestyles, materials and even the way labels have been applied.

Your choice of a promotional program should be based on industry experience and your own market research. What means will reach prospective buyers most efficiently? What content should your message have? This is all available to you through your market research.

2.2.4 Place

The distribution chain is the way in which your product or service reaches its users. It can be direct or indirect, and your role in it is called "place".

A direct line means that you are dealing directly with the people or organizations whom you want your product or service to reach, and that you are the enterprise which originally produced the product or service.

There are two basic variants of an indirect system. The first puts the retailer between you (the producer) and your customer (the user). The second uses both a wholesaler and a retailer between you and the user. Some manufacturers use sales agents rather than their own sales force or a traditional wholesaler or retailer.

In examining your distribution policy, you must look at your place within the chain. Do you actually produce the product or service, or are you a wholesaler or retailer. Also, are you a part of another distribution chain? IBM is the end of some chains (those of raw material suppliers, since it is a customer) and the beginning of others (computers, for example).

Distribution policy is based, to some degree, on industry practise. If all your competitors use wholesalers and retailers, there must be a reason. Find it, evaluate it and decide if it is sufficient for you to do the same. Then make your decision.

You will also want to consider the division of responsibility with other members of the chain, the division of the costs, where promotional decision making takes place, and how revenue is shared (a component of the pricing decision).

When you have finished this part of your plan, you will know where you stand in relation to your ultimate customers, and what your relationship will be to any intermediate customers. This will heavily influence your pricing and your promotional strategies.

2.2.5 Positioning

As we use the term, positioning relates to the one or two things by which you want your enterprise knows. Positioning policies which have worked extremely well in the past include Kleenex (how many of your acquaintance ask for a "facial tissue"?) and Coke (instead of a "cola beverage"). Positioning which has gone too far (the brand name became a commodity name) is the zipper. While it is unlikely that, in the short term at least, you will achieve such success, you should strive or positioning along the lines of the Coke and Kleenex model.

How do you decide on a positioning policy? Look at the things and benefits which you and your product/service supply best. Look at what your competition does, using material from your research. Consider what prospective customers have told you about your enterprise and product/service. From this information, and your own judgement, you should be able to identify your unique competence. It should be something on which you can "hand" your name; something which will be immediately recognizable as being yours.

Companies have, in the past, built positioning policies on concern for the customer coupled with size, convenience, or knowledge; size alone; quality; knowledgeability; uniqueness; and employees. There are many things which you can use, but it is up to you to identify them and select the best one.

Your positioning is what will differentiate you and your products/services from all your competitors. Some sales training manuals refer to it as your "unique selling proposition" or "unique competence". In any case, it is important to your marketing success, since it should form the basic message in all your communications.

2.3 Marketing Success

The key to marketing success is implementation: putting your marketing plan into action. We will be discussing this in greater detail in the chapter on business planning, but a general introduction to the topic is useful here.

Many businesses have failed because, although their marketing plans were sound (even brilliant), their implementation of those plans was poor. They ignored specific tactics, or did not meet deadlines they had set for themselves, or they abandoned the plan altogether and acted on impulse. In effect, they asked for trouble, and they got it. Their poor implementation led to wasted money, missed opportunities and lost sales revenue.

How can you be sure that you can implement your marketing plan successfully? First, you must decide whether you have the will, the means and the ability to carry it out by yourself, or whether you will need (and can afford) help. You may be able to perform some functions yourself, but need assistance for others. Some of your choices, which look good on paper, may go completely against your grain. Drop them from your plan unless you are prepared to let someone else handle them.

Next, decide what areas you can afford to farm out to others, and on what basis. If you decide to use direct response advertising, but have no abilities as a copywriter, it will likely pay you to use an advertising agency which specializes in direct response. If you have no flair for face-to-face selling, you may want to hire a sales person on commission, or salary plus commission; or you may decide to use a sales agent.

Finally, decide on a timetable for implementation. The question of timetabling will be discussed more fully under business planning. At this point, we will say only that the timetable should be reasonable.

The best marketing plans are those which you, the entrepreneur, feel most comfortable with and most capable of implementing. They are those which most fully address the issues and opportunities uncovered in your marketing research. Those plans, and those alone, are most likely to be implemented successfully.

APPENDIX 2-1
BREAK EVEN ANALYSIS

The purpose of a break even calculation is to show at what point, given certain costs and a certain selling price, an enterprise starts to make money. Although it does not serve to indicate what price should be charged for services, it can be a tool for arriving at an economically sensible price (i.e. one which should result in a profit).

The mathematical formula for break even is:

$$V_{bep} = \frac{FC}{P - VC}$$

where: $\mathbf{V_{bep}}$ is the sales volume required to reach the break even point;
FC is the month-to-month fixed costs of the operation;
P is the selling price of one unit of product; and
VC is the variable costs involved to produce a given unit of product.

For a fictional company, lets assume the following information:

FC are rent and overhead of $2,500; management salaries of $1,500; and selling expenses of $1,000 (all on a monthly basis).
VC are labour $25.00 and material $12.50 (both per unit of product).
P is $52.50 per unit.

Thus, we have:

$$V_{bep} = \frac{\$5,000.00}{\$52.50 - 37.50}$$

which equals 333 units of product per month.

To improve the picture, you can play with the price or make some assumptions about reductions in either the fixed or variable costs.

APPENDIX 2-2
PRODUCT LIFE CYCLE

Any product goes through four stages in its life. These stages are:

< *Introduction,* where the new product is first presented to the marketplace. It is usually aimed at "first innovators"; that is individuals or organizations who may be regarded as trend-setters. Once these people/groups have accepted the product or service, they influence others to try it.

< *Growth.* The product or service is now established in the marketplace. As it becomes better known and, in some cases, more affordable, or more available, it is purchased by more and more members of its target group. Sales in the growth stage are usually quite high, and show marked increases from period to period.

< *Maturity.* The sales of the product or service now begin to show slower growth because the market is reaching the saturation point or new products or services are threatening to make this one obsolete.

< *Decline and withdrawal.* The market for the product or service is shrinking, either because no new market has been found, or because of new product/service introductions which replace this one. In either case, sales can remain level or start falling, unless some innovation can be introduced to lengthen the product/service's life.

3 FINANCE

The study of finance is often confused with the study of bookkeeping. Nothing could be further from the truth. Although a good understanding of bookkeeping helps in understanding finance, the two are by no means the same. In this seminar series, we will look at bookkeeping briefly as background information before moving on to an examination of financial management.

It is not our purpose, in this section, to train you to be a bookkeeper. We are much more concerned that you understand the information to be gathered from financial statements, and use it to manage your enterprise. Because your time as an owner/manager is valuable, we suggest you hire a bookkeeper to set up and maintain your financial records, instead of doing it yourself. This makes time available for work that only you can do: managing.

3.1 Definitions

The study of finance uses many familiar English words, but, like any other dialect, gives them slightly different meanings. Therefore, it is worthwhile to establish some definitions before we go any further.

There are two types of accounting: **cash-basis** and **accrual-basis**. **Cash-basis** accounting relates to the amount of money which is physically in the business. It says that income is income only when you actually receive payment, and that expenses are expenses only when you actually make the payment. **Accrual-basis** accounting, on the other hand, says that income is income the moment you issue a bill or invoice, and that expenses are expenses the moment you receive the bill or invoice. Most businesses keep records on an accrual-basis because the Income Tax Act requires them to report on that basis.

At the end of each financial period, whether it is a month, a quarter (three months) or a year, businesses put together **financial statements**. These are documents which summarize the business activity which takes place during the period and show the position of the business at the end of that period. We will be dealing with two financial statements: the **income statement** (or statement of profit and loss) and the **balance sheet**.

The **income statement** is like a movie of the business during the period. It shows the money the business earned (**income**) and summarizes the money the business spent to earn that income (**expenses**). If income is higher than expenses, the business shows a **profit.** If income is lower than expenses, the business shows a **loss**. If income equals expenses, the business has **broken even**.

The **balance sheet** is like a photograph of the business at the end of the last day of the period. It shows the things of value the business owns (**assets**) and the money the business owes (**liabilities**). It also shows the entrepreneur's investment in the business (**equity** or **capital**). Assets are shown on the left side of the statement and liabilities and equity on the right side. The left side of the statement should equal the right side. Thus, predictably, the balance sheet will balance.

The balance sheet and income statement are related through the **equity account** on the balance sheet. When you start your business, you will invest some money in it. This is money you give to the business, not money you loan to it. This money represents your **beginning equity**. If the business makes a **profit** during the period, you add that profit to your investment through what is called **retained earnings**. If the business shows a **loss** during the period, you subtract that loss from your investment. If the business **breaks even**, your investment is unchanged. After you have considered the effect of the period's activity on your investment, you will have arrived at a new equity figure. This is the tie-in between the two major financial statements.

Your business has three sources of money: **equity** and **income**, both of which we have already defined, and **debt**. **Debt** is money the business borrows. Unlike equity and income, debt must be repaid, usually on a fixed schedule and usually with interest. For that reason, beginning entrepreneurs frequently avoid borrowing too much money.

Appendix 3-1, at the end of this section, summarizes these and other definitions which it is helpful to you to know.

3.2 Financial Analysis

Whether you are evaluating the progress of your business or preparing your first set of financial projections, it is helpful to be familiar with the very powerful tool of financial analysis.

We will be studying two analytical techniques: ratio analysis and sources and uses of cash. Examined together, these will give you a clear picture of where your business is and where it is going. They may also point out potential problems and, once you are very familiar with the, even suggest solutions. The easiest tool to understand and master is the statement of sources and uses of cash (also called the statement of changes in financial position). To illustrate these statements, let's look at a fictitious company's financial statements.

EXHIBIT 2-1
LMN COMPANY LIMITED

Balance sheets as of January 31
(in thousands of dollars)

	1994	1995	1996
ASSETS			
Current Assets			
Cash	2	12	6
Net Accounts Receivable	80	72	80
Inventory	153	168	200
Total Current Assets	*235*	*252*	*286*
Fixed Assets, Net	49	34	32
TOTAL ASSETS	**$284**	**$286**	**$318**
LIABILITIES			
Current Liabilities			
Accounts Payable	68	64	71
Notes Payable - Bank	28	26	40
Taxes Payable	6	2	2
Accrued Expenses	5	12	8
Total Current Liabilities	*107*	*104*	*121*
Long Term Liabilities	30	20	20
TOTAL LIABILITIES	**137**	**124**	**141**
EQUITY			
Common Stock	15	15	15
Retained Earnings	132	147	162
TOTAL EQUITY	**147**	**162**	**177**
TOTAL LIABILITIES & EQUITY	**$284**	**$286**	**$318**

From this, we can work out the changes which have occurred in their financial position. First, we look for sources of cash. A decrease in any asset account (except "Cash") represents a source of cash, because it is assumed that the asset is exchanged for money. An increase in any liability account also represents a source of cash because it means that the business is using someone else's money. An increase in either equity account (common stock or retained earnings) represents a source of cash. Common stock increases through the sale of shares. Retained earnings increase because of profits.

Uses of cash are represented by an increase in any asset account (except "Cash"), because either a purchase has been made or the business is financing its customers by extending credit; a decrease in liabilities, because a debt has been paid; or a decrease in equity, because a loss occurred on the period, reducing retained earnings.

In 1995, the statement of sources and uses of cash for the LMN Company would be:

EXHIBIT 3-2
LMN COMPANY LIMITED
Statement of Sources and Uses of Cash
Year ended January 31, 1995
(in thousands of dollars)

SOURCES OF CASH			
Net Accounts Receivable		8	
Fixed Assets, Net	15		
Accrued Expenses	7		
Retained Earnings	15		
Total Sources			*$45*
USES OF CASH			
Inventory	15		
Accounts Payable	4		
Notes Payable - Bank	2		
Taxes Payable	4		
Long Term Liabilities	10		
Total Uses			*$35*
CASH BEGINNING OF PERIOD			**2**
NET SOURCES (USES) OF CASH			**10**
CASH END OF PERIOD			**$12**

For 1995, then, the sources of cash for LMN Company were $10,000 greater than were the uses. The company had a net inflow of $10,000. This is reflected by an increase of $10,000 in the "Cash" account.

In order to make the most use of this information, it should be evaluated in light of general economic conditions, past performance and overall activities during the period covered.

Attempt to account for the changes which occurred. In the case of LMN company, why did net fixed assets decrease? Were some assets sold, or did depreciation account for the change? Perhaps it was a combination of the two. Relate the changes on the balance sheets to the income statements (see Exhibit 2-3). See what can be accounted for in that way.

Look also to see whether the changes make sense. For instance, if LMN Company had a substantial increase in sales in 1985, the decrease in accounts receivable would be significant. It would indicate either that LMN's customers were paying off their accounts faster, or they were buying for cash instead of on credit.

Examining sources and uses of cash this way, against the backdrop of economic conditions and your company's past performance, provides some important clues about where the company is going. This can be helped even further by ratio analysis.

Ratio analysis may be approached in tow ways: a vertical analysis which looks at expenses as a percentage of sales, or ratios designed to provide information on specific kinds of performance.

In financial analysis, we are concerned with five areas:

< *Profitability*, which concerns income being larger than expenses, and represents the "bottom line" test of how successful a firm's operations have been. This also looks at whether the return on investment (ROI) is sufficient.

< *Liquidity*, which is the firm's ability to pay its current liabilities without impairing its continuing functioning.

< *Stability*, which refers to the likelihood that the business will continue to operate because it is not too vulnerable to creditors as a result of too much debt financing.

< *Efficiency*, which refers to the efficient use of assets and liabilities, and which effects profitability, liquidity, stability and growth potential.

< *Growth*, which concerns increasing in size (eg. assets) and better performance (eg. sales, profits).

For each of these areas, or goals, there are a number of relevant ratios. To assist in understanding this, Exhibit 3-4 shows a complete analysis of LMN Company's statements and the important relationships with its balance sheets.

EXHIBIT 3-3
LMN COMPANY LIMITED

Income Statements
For the Years Ended January 31
(in thousands of dollars)

	1994	**1995**	**1996**
Sales	$875	$849	$1,086
Cost of Goods Sold			
Beginning Inventory	152	153	168
Purchases	678	662	874
Goods Available for Sale	830	815	1,042
Less: Ending Inventory	153	168	200
Cost of Goods Sold	*677*	*647*	*842*
Gross Profit	*198*	*202*	*244*
Operating Expenses			
General & Administrative	76	81	95
Selling	76	84	113
Depreciation	15	15	14
Total Operating Expenses	*167*	*180*	*222*
Net Operating Profit	*31*	*22*	*22*
Other Expenses - Interest	3	2	2
Net Profit Before Tax	*28*	*20*	*20*
Estimated Income Tax	7	5	5
Net Earnings	*21*	*15*	*15*

EXHIBIT 3-4
LMN COMPANY LIMITED

Ratio Analysis
For the Years Ended January 31

	1994	**1995**	**1996**
Profitability			
(1) Vertical Analysis			
Sales	100.0%	100.0%	100.0%
Cost of Goods Sold	77.4	76.2	77.5
Gross Profit	*22.6*	*23.8*	*22.5*
Operating Expenses			
General & Administrative	8.7	9.5	8.7
Selling	8.7	9.9	10.4

		1994. (cont'd)	1995. (cont'd)	1996. (cont'd)
	Depreciation	1.7	1.8	1.3
	Subtotal	*19.1*	*21.2*	*20.4*
	Net Operating Profit	*3.5*	*2.6*	*2.0*
	Other Expenses	0.3	0.2	0.2
	Net Profit before Tax	*3.2*	*2.4*	*1.8*
	Estimated Income Tax	0.8	0.6	0.5
	Net Earnings	*2.4*	*1.8*	*1.4*
(2)	**Return on Investment (ROI)**	15.4%	9.7%	8.8%
Liquidity				
	Current Ratio	2.2:1	2.4:1	2.4:1
	Acid Test Ratio	0.8:1	0.8:1	0.7:1
	Working Capital (000)	$128	$148	$165
Stability				
	Net Worth/Total Assets	51.8%	56.6%	55.7%
	Interest Coverage	10.3 times	11.0 times	11.0 times
Efficiency				
	Age of Receivables	33.4 days	31.0 days	26.9 days
	Age of Inventory	82.5 days	94.8 days	86.7 days
	Age of Payables	36.6 days	35.3 days	29.7 days
Growth				
	Sales		(3.0%)	27.9%
	Profit after Tax		(28.6%)	0.0%
	Assets		0.7%	11.2%
	Equity		10.2%	9.3%

Notes: Brackets indicate negative amounts.

3.2.1 Profitability

Profitability looks at dollar profits as a percentage of sales. If 1993 sales were $450,000 and profits were $28,800; and 1994 sales are $575,000 and profits are $32,000; has the business improved its profitability? Dollar profits have gone up, but profits expressed as a percentage of sales have actually gone down from 6.4% in 1993 to 5.65% in 1994. The business is less profitable.

To determine profitability, use the formula:

$$\frac{NetProfit}{sales} x100$$

You may also want to determine various costs as a percentage of sales. This gives you ability to compare costs from year to year, which helps you control your business financially. To do this, simply replace "Net Profits" with the cost figure you want to know.

You have an investment in your business (the total equity on the balance sheet). You earn a return on that investment (net profit before taxes). Are you further ahead owning your business, or leaving your money in an interest-bearing account? This ratio, expressed as a percentage, gives you the financial answer to that question:

$$\frac{NetProfit}{AverageYearsEquity} x100$$

Average year's equity is calculated:

$$\frac{(BeginningEquity + EndingEquity)}{2}$$

It is important to realize that this answer is only financial. It does not consider the wages and benefits you receive from your corporation (if your business is incorporated), or other benefits you get (company car, indirect business subsidy of your mortgage interest, rent and utilities), or the satisfaction you have being a business owner. These things are difficult to factor in, but you will want to consider them when looking at your ROI.

3.2.2 Liquidity

Liquidity tells you whether you will have enough money to pay current liabilities from current assets. If you can't satisfy current liabilities from current assets, you technically would have to begin selling fixed assets, which hurts your ability to continue as a functioning business. Banks and other lenders are often concerned with liquidity. Two different ratios are used: the current ratio:

$$\frac{CurrentAssets}{CurrentLiabilities}$$

This is expressed as "2:1" which means that there are $2 in current assets for every $1 in current liabilities. At one time, lenders generally looked for a current ratio of 2:1; in recent years, however, they have begun looking at what is normal for the industry in which you operate.

Lenders can be concerned about the amount of inventory and other relatively "nonconvertible" assets the business is carrying. For instance, prepaid expenses are not normally easily convertible to cash at anything like their face values. Similarly, inventory is hard to convert to cash rapidly, if you want to get even book value (never mind full retail price). To discount the effect of these "not-quite-so-current" assets, we use the "quick," "acid test" ratio:

$$\frac{(Cash + Receivables + MarketableSecurities)}{CurrentLiabilities}$$

The old rule of thumb for the acid test ratio was 1:1, but lenders are more willing to consider industry norms in evaluating your business's ratio.

3.2.3 Stability

Lenders are also concerned with the percentage of total assets financed by debt. The more your business relies on debt financing, the more vulnerable it is to creditors and the more unstable it appears to be. There are three different ratios used here.

The first is the debt to equity ratio. It compares total debt to total equity, and is expressed as a normal ratio:

$$\frac{TotalLiabilities}{TotalEquity}$$

As with liquidity, there is an old rule of thumb, which is now discarded in favour of industry norms. The old rule was 3:1 ($3 in debt for every $1 in equity). You may still want to use this for guidance.

Next is debt (or equity) to total assets. It is normally expressed as a percentage:

$$\frac{TotalLiabilities}{TotalAssets} x100$$

The final ratio looks at interest coverage. It compares earnings before interest and taxes (EBIT) to interest expense:

$$\frac{EBIT}{InterestExpense}$$

The higher this ratio is, the happier lenders are. While you will want to look at your industry's norms, you should probably get nervous if the ratio dips below 2 or 3:1. (Naturally, if the ratio is below 1:1, you are losing money.)

3.2.4 Efficiency

Efficiency ratios measure how well you are managing your current assets and current liabilities. Specifically, they look at accounts receivable, accounts payable, and inventory.

Age of accounts receivable (expressed in days) is derived as:

$$\frac{AccountsReceivable}{AverageD'aysSales}$$

Average day's sales are total sales divided by the number of days in the period. The ratio becomes meaningful for periods of a month, a quarter or a year.

Age of accounts payable is derived as:

$$\frac{AccountsPayable}{AverageD'aysPurchases}$$

Average day's purchases are normally found by dividing total inventory purchases by the number of days in the period.

Age of receivables should not dramatically exceed your credit terms. Age of payables should be in line with the terms your suppliers extend you.

We express inventory efficiency either in days or inventory turns. The calculation for days is:

$$\frac{Inventory}{AverageD'aysCostofSales}$$

Inventory turns are calculated as:

$$\frac{PeriodCostofSales}{Inventory}$$

Lenders generally dislike lending against inventory, although they will do it. Normally, they will lend only a percentage of the value of the inventory that is under a certain age. Fifty percent of book value for inventory under 90 days is a favourite, although this varies with the industry norms. The older your inventory, the less comfortable the lenders are.

Inventory turns vary with industry. For most retail businesses, the rule of thumb is between 4 and 6 times. If the number is too low, you may be carrying too much inventory. If it is too high, you run the risk of stock-outs.

3.2.5 Growth

Growth ratios measure the firm's performance in meeting what is normally one of the entrepreneur's most important goals. Growth is typically calculated for sales, profits, assets and equity. To find growth for any of these items, use this formula:

$$\frac{Year2 - Year1}{Year1} x100$$

In evaluating the enterprise's performance in the growth area, bear in mind, as always, industry averages and current economic conditions. For some years, a slight shrinkage would denote good performance, while, in others, a growth of even 10% would be relatively poor.

3.3 Analyzing Finances

With the tools we have just discussed, it is now possible to perform a reasonably thorough financial analysis. Some warnings are in order, though, to put such an analysis in perspective. Some of these warnings have been already given, but are repeated again because they are very important.

Whenever you analyse a company, yours or someone else's, be sure to get some up-to-date comparable figures to use as a guide. Something which is normal in one industry may be completely unacceptable in another. Further, something which is normal in 1990 may, by 1996, be a danger sign. So your analysis must always take into account the prevailing situation in the industry at which you are looking.

Be sure that you consider your analysis in terms of the prevailing economic conditions. Even the best run companies had problems in 1980-1982, and again in 1991-1992. However, if you looked at an analysis for those years, without taking into account the effects of the recessions, you could draw some faulty conclusions about the condition and management of a firm.

Be aware that any significant deviation from industry norms should be explained. When the normal current ratio is 2:1, the company whose current ratio is 6:1 should be studied just as closely as the company whose ratio is 0.5:1. Always ask yourself "why is there a deviation?" Account for all the important differences from industry norms.

Realize that numbers may not tell the whole story. Look at other information about the company. Was there a major shift in strategy? New product introduction? Was a union certified? Major shake-up in management? Is it a relatively new business? All of these items would affect financial figures and none of them would surface through a study of industry norms or economic conditions.

As an exercise, you may want to work out the ratio analysis for LMN Company Ltd., develop a statement of sources and uses of cash for 1995-96, and interpret the results of the analysis.

3.4 Money in Business

If there is an area where new entrepreneurs have difficulty, it is in their attitudes towards money and those who dispense it. This problem is increased because those who dispense money encourage the attitudes.

In a nutshell, many entrepreneurs look at money as some magic medium which will mean the difference between success and failure for their business. They regard those who dispense money (chiefly bankers) as high priests of the Temple of Dough, a religion whose mysteries they can't possibly understand.

To put it simply, these attitudes are as wrong as they can be.

Money is a commodity, like grain or iron ore. And while money is as necessary to business as iron ore is to steel manufacturing, many entrepreneurs over estimate the importance and quantity of money their specific business requires. Experienced entrepreneurs, who frequently hear "No" from their bankers, have learned over time that they can make do with much less money than they originally thought was the minimum requirement.

Those who supply money (again, chiefly bankers) are ordinary human beings. It might help to look at them as the same as grain brokers, since the money they supply isn't theirs, the money they can supply is the same as the money any other money broker can supply, and, if you get the general drift of this chapter, you've eliminated most of the mystery with which banks and banking have surrounded themselves.

Money is, first and foremost, a medium of exchange. It started out as a way of eliminating the difficulty of making barter transactions. Hundreds of years ago, you could exchange three bushels of wheat for a cow. That was fine if you had three bushels of wheat. If you didn't, you either had to work out a trade with the cow's owner where he (usually) would accept something you *did* have as being worth the same as three bushels of wheat, or you had to find someone with three bushels of wheat, and work out a trade with him. Money eliminated all of that. If a bushel of wheat was worth one silver piece, then a cow cost three silver pieces. Simple as that. Money still functions that way. there is no need to determine how many widgets a zippidy is worth, since everyone knows that a zippidy costs $1.50. And face it, when was the last time you had to figure out what to trade for widgets so you could buy your zippidy?

Secondly, money is a way of making things easier. Since you can use money to buy things (both tangible, such as cars, and intangible, such as services), and you can use things to make life easier, if you don't have money, all you need to do is figure out what you can do yourself, or get someone to do for you, for no cash.

So, while money is handy to have, you probably won't need as much of it as you first thought.

3.4.1 Where to Get Money

The simplest way to get money is to ask. The trick is knowing who to ask, and how to phrase your request.

You can get money from yourself. This is often the easiest source, since you should require very little convincing of both your need and your creditworthiness. Other people with money to give you will want to know that you have some of your own money at risk (yes, they look at your business as a risk) before they let you near their money.

You can get money from friends and relatives. This is known in the money trade as "love money", since love is the reason bankers and others assume would prompt your friends and relatives to give you money. If you do turn to friends and relatives, make sure everyone understands the terms under which the money is being given (is it a loan, an equity investment, or a gift?), and the terms under which it will be repaid (if that is your intention). This applies to money from your spouse, significant other, parents, children, grandparents, uncles, aunts, cousins, nieces, nephews, close friends, distant friends, friends of friends, acquaintances, business associates, sports associates and other professional or personal associates with whom you maintain a friendly relationship. If you aren't clear about these terms, you may quickly find out that you have one less friend or relative, and one more enemy.

You can get money from the banks, trust companies, caisse populaires and credit unions. These institutions are in the business of borrowing money (taking deposits from you and me) and lending money (making loans to you and me). They will want to know what you plan to do with the money, the terms under which you will repay it, how you plan to come up with the money to repay them, and the security you will offer in exchange for the loan. These financial institutions will lend money to anyone, for any reason, provided they can answer those questions, and have a reasonable credit history. When dealing with financial institutions, remember that they don't make any money (to speak of) unless they can lend money out.

You can get money from the government, in some specialized situations, and you can get loan guarantees from the government in many normal situations. Loan guarantees make it easier for a financial institution to give you the money since they know that, if you fail to make your repayment, they can turn to the government. However, the government wants you to do certain things with the money. For instance, governments typically like to encourage job creation, and jobs are created when people and businesses buy big-ticket durable items, like computers, lathes and buildings. Most government grants and loans, and almost all government loan guarantees, are, as a consequence, for the purchase of fixed assets, as big ticket, durable items are called. Notably, government will not normally lend, or guarantee loans for, purchases of inventory, rescheduling of debt, or other things of that nature. They also usually won't lend or guarantee for purchase of an existing business.

You can get money from venture capitalists. These are people and organizations who specialize in providing equity, with strings attached, to companies. The important things to remember are, first, that there are always strings attached. Venture capitalists will provide funding, but they will want voting common stock, seats on your board of directors and, possibly, the right to name management (which may not include you, by the way). Venture capitalists specialize, some in different industries, some for companies at different stages of growth, and some for companies of different sizes.

You can get money from your trade creditors. Not surprisingly, this is called "trade credit". If you buy items for resale, or for incorporation in a product or service which you manufacture or provide, you may be able to arrange payment terms with your supplier. Likewise, suppliers such as Bell Canada, Hydro, Grand & Toy, etc. may also be willing to allow you credit. This is a very limited form of credit, since you can't use the money they loan you for anything but the purchase of their products or services, but you can use the money this frees up for other things.

You can get money from factors. A factor is a company which buys your accounts receivable from you at a discount (often as high as 50%), pays you immediately, and then turns around and collects whatever is owed. There are no strings attached, but you usually have to have a fair amount of receivables, and you should think twice about this - if your customers are contacted by a factor asking for payment, they may conclude you are in deep financial trouble (which is often the case with people who use factors), and decide to protect themselves by replacing you as a supplier.

You can get money from loan brokers, but we don't recommend this. Loan brokers in Ontario aren't regulated (don't confuse loan brokers with mortgage brokers, who are regulated), and there have been some unfortunate events involving dishonest loan brokers and unwary customers. If you must deal with a loan broker, never give them any money up front (have their fees deducted from the proceeds of the loan), and be careful about interest rates, repayment terms, early payment penalties and default penalties.

3.4.2 How to get Money

Decide how much you will really need (see the next section in this chapter), and decide how much you are willing to put from your own resources and can secure from friends and relatives. Then decide how you want to get your money, and what you're willing to give up to get it.

There are a couple of rules you should know. First, match your borrowing period with the amount of time you will be using the money. You can get a line of credit (the correct banking term is an **operating facility**), a **term loan** (one in which you make principal and interest payments over a period of years) or a **mortgage**. While it is possible to get unsecured term loans, or term loans secured by assets you already have, we don't recommend doing that to finance inventory purchases, receivables, or any other short term need.

For short term borrowing needs, use an operating facility or, if your bank offers them for commercial customers, an overdraft. You can expect to pay an initial administration fee to set up the facility, and an interest rate which fluctuates with the bank's prime lending rate. You will also pay an annual administration fee, and be subject to annual reviews. There will be a detailed loan agreement which spells everything out.

For medium term needs, get a term loan. Term loans are often (but not always) for a specific purpose, such as the purchase of machinery or equipment, and are secured by a chattel mortgage on the item being purchased. You will normally pay the principal down in equal amounts (for instance, $100 per month for five years for a $6,000 loan), and will also be required to pay the interest monthly on the un-repaid balance. In addition, the interest rate may float with the bank's prime lending rate. This is usually the case with government guaranteed loans.

For longer term needs, such as the purchase of land, buildings or other extremely durable fixed assets, you will get a mortgage. This will work essentially the same as a home mortgage, although the term may be shorter, and the repayment schedule and conditions different.

If you are undertaking a fundamental restructuring of your business, which will take several years to make itself felt, look for equity capital from venture capitalists or through another type of private placement. The same is true if you are going to be making a major expansion of the business. You should be aware, however, that small amounts of money (usually less that $50,000) are difficult to come by in the formal venture capital market, so you may wind up with a combination of loans and equity.

Once you have matched your borrowing and your spending, consider what you're willing to give up to get the money. With ordinary loans from financial institutions, they will ask you to provide some security. For an operating facility, this may take the form of a personal guarantee (a legal document, saying that you, personally, will pay the bank if the business is unable to do so), a general security agreement on the assets of the business (which says that the bank can take any and all of the business's assets and sell them to repay the loan), a specific charge against inventory or receivables (saying that the institution can seize your inventory or commence collection of your receivables if you are unable to repay them), or a collateral mortgage against your house. A collateral mortgage means that, while you are acting in accordance with your loan agreement with the bank, nothing happens to your house, but if you are unable to abide by your agreement, the bank can come in and convert its collateral mortgage into a regular mortgage.

Since a collateral mortgage has the potential of being converted into a normal mortgage, Ontario law requires that all owners of the house obtain independent legal advice (ILA) before the financial institution is allowed to make the loan. This is to avoid situations where one partner in a marriage borrows money for a business, with a collateral mortgage on the house, and defaults, causing possible loss of the house, without the knowledge or informed consent of the other partner. ILA is required to be substantiated by a signed statement from the lawyers consulted, and a similar statement from the owners of the house.

Security for a term loan is often the asset which is being purchased, although the bank may also take security against other of the business's assets instead. This is fairly straightforward, since the loan term and the useful life of the asset are fairly well matched. The bank will register a lien under the Personal Properties and Securities Act (known as PPSA), which will (or should be) lifted when the loan is paid off.

Commercial mortgages require the land and building(s) being purchased as security. Unlike residential mortgages (including collateral mortgages), commercial mortgages are normally only for 60% of the appraised value of the property (residential mortgages, except for high ratio mortgages, will generally be for up to 75% of the appraised value). However, as with homes, it is possible to get second and third mortgages for commercial property.

For equity financing, venture capitalists will normally require voting common stock in an amount proportionate to the financial risk they assume. This means that, if your equity, including retained earnings, are $100,000, and you want a venture capitalist to invest $300,000, they will want 75% of the voting common stock as a way of exercising control. In addition, they will want the right to appoint a majority of the members of your board of directors, and will frequently want to hire (or at least approve the hiring of) senior managers. It is possible that, in this hypothetical instance, you, the entrepreneur, could wind up with only 25% ownership in your own business, as few as one of eight seats on the board of directors, and without a management voice in the running of your company. In addition, when the venture capitalist goes to sell their shares, you may not have first option to buy them (known as "first right of refusal"), or may only be able to exercise it at a price higher than you can afford. Therefore, while venture capital can seem like an answer to a prayer, be extremely careful in the kind of deal you strike.

3.4.3 Your Proposal

Your proposal to a potential funder should inform them about the business, your operating and marketing plans, and your own background (credit history for all funders, and personal biography for venture capitalists). In addition, it should contain a complete set of financial projections. The balance of this chapter will deal with manual preparation of projected cash flows. Once the manual approach is understood, the accompanying cash flow spreadsheet template (see the disk included with your package) will be easy to complete.

First, you must identify your cash inflows and outflows. These may include sales, collections, loans, equity, salaries, rent, utilities, government payments, loan repayments, interest on debt, equipment purchases, inventory purchases, stationery, travel, sales expenses (advertising, expense accounts, etc.), printing, postage and communications, and so forth. They do not include non-cash expenses such as depreciation or capital cost allowance.

Next, determine the amount of each item for each month. Sales may be predicted by determining an average price for your products and multiplying this by your expected monthly unit sales. Collections reflect the fact that not all sales may be paid for in cash. Estimate what your collection experience is likely to be (for instance, 60% of customers pay in one month, 30% pay in two months, 7% in three months, and 3% in four months) and prepare a schedule using each month's credit sales.

Expense items should reflect the fact that you may be extended credit. For instance, most utilities would not be paid for until the month following the billing. Similarly, suppliers of raw materials or finished goods inventory may grand fifteen, thirty or even forty-five days credit. Your projections should indicate what these terms are, and your intentions to pay the bills.

Finally, you must determine the interrelationships among the various items. Remember that you will want to maintain some kind of inventory on hand, so that your inventory purchases will reflect both expected sales and your inventory "cushion". At the same time, bear in mind that your strategies will require concentrating on some expense items (advertising or postage, for example) at certain times of the year. The sales generated by these expenses may occur in the next month, but the expenses may have to be paid on a current basis.

Now you are ready to prepare some projections. You have five categories to use:

< *Bank balance.* This item has three lines: opening balance (the amount in the bank at the start of the month); surplus (deficit) from previous month (the excess cash to be added, or the shortfall to be deducted); and new balance (what you get when you add or deduct the previous month's cash results to your opening bank balance).

< *Cash inflows.* Show cash sales, this month's collections, and any loans or equity

proceeds you expect for the month.

< *Cash outflows.* Show cash expenses by category of expense, and total the month's outflows. Be sure to include non-recurring items (insurance, deposits, fixed asset purchases).

< *Summary.* Show the cash surplus (deficit) for the month, determined as inflows less outflows, and show the year-to-date surplus (deficit). This month's surplus (deficit) is moved to next month's bank balance section.

< *Assumptions.* For each month, show projected unit sales, unit price, total dollar sales, cash sales, estimated collections, inventory purchases (both units and dollar amounts) and any loan repayments you may be making.

At the end of the year, total all the items to give you year-to-date amounts. These should balance with the year-do-date figure you have been keeping as a running tally in the summary section of your projections.

From this information, you will be able to prepare projected income statements and (if you need or want to do so) projected balance sheets.

The income statement uses the total sales data for the income figure. Total inventory purchases, less ending inventory (the total of your "cushion") can show cost of goods sold. You will not use equipment or capital asset purchases; instead you will need to show depreciation or capital cost allowance at whatever rate you decide to use (you should consult an accountant for this). Most other expenses will be as estimated from the cash flows, although you will need to use data from the first month of the next year fr some items such as utilities or advertising, since these may be prepaid. DO NOT INCLUDE DEBT REPAYMENT. Under accepted accounting principles, principal repayment is not a deductible expense to a business, just as loan proceeds are not taxable income. You will show your interest expense on the income statement, and the balance sheet will reflect principal repayment as reduction of long term debt. Naturally, income less expenses will give you your figure for profit (loss), which is carried to the balance sheet.

For the balance sheet, the figure for cash can be taken directly from the cash flows. Accounts receivable can be determined by subtracting year to date collections from year to date credit sales (plus any prior credit sales). Inventories can be determined by subtracting units sold from units purchased, and multiplying by the average purchase price (note: this will not give any information for work-in-process for a manufacturer, because it does not include labour or overheads. It simply indicates raw materials purchases or finished goods purchases). Fixed assets are represented by equipment and other capital purchases. Existing businesses already have information on fixed assets from previous balance sheets and need only adjust this figure from cash flows (if new assets were purchased during the year) and the income statement (for depreciation/capital cost allowance).

Accounts payable may be determined by a two part process. For organizations which purchase inventory, take total inventory purchased and subtract payments to inventory suppliers; this will give you the first component. The second part of the process identifies other creditors, many of whom will be paid next month. For them, simply use the payments estimated fr the first month of the next year. Total payables is the sum of the amounts owed on inventory plus the amount owed to other creditors. Most other liabilities can be found the same way. Long term debt would be the total amount of debt assumed, less principal repayments made during the year. DO NOT INCLUDE INTEREST PAYMENTS HERE. They are reflected in the equity section because interest is an expense which has been deducted to determine profit (loss) for the year. You may also have short term bank debt. This could occur if you have an operating facility, or if you chose to show next year's principal repayments for term loans or mortgages (as "Current portion of long term debt").

Equity is your total investment in the business plus the profit (loss) from the income statement.

Exhibit 3-5 presents projected cash flows, income statement and balance sheet for a three month period for a fictitious retailer.

EXHIBIT 3-5
PDQ COMPANY LIMITED

Cash Flow Projections for three months ended March 31

	January	February	March	Totals
Opening Balance	**15,000**	**15,000**	**20,176**	**24,235**
Last Month Surplus (Deficit)	0	5,176	4,149	8,524
New Balance	**15,000**	**20,176**	**24,235**	**32,849**
Cash Sales	16,920	22,560	29,400	68,880
Collections	0	6,768	12,048	18,816
Total Cash Inflows	**16,920**	**29,328**	**41,448**	**87,696**
Inventory Payments	0	18,480	24,640	43,120
Salaries and Benefits	4,400	4,400	4,400	13,200
Telephone	150	150	150	450
Postage	34	34	34	102
Office Supplies	500	15	15	530
Printing	700	10	100	810
Insurance	300	0	0	300
Advertising	500	500	1,000	2,000
Sales Expenses	50	180	200	430
Rent	750	750	750	2,250
Bank Charges	10	10	10	30
Equipment Purchases	4,350	0	0	4,350
Debt Repayments	0	650	650	1,300
Interest Payments	0	0	975	975
Total Cash Outflows	**11,744**	**25,179**	**32,924**	**69,847**
Surplus (Deficit) This Month	**5,176**	**4,149**	**8,524**	
Y-T-D	**5,176**	**9,325**	**17,849**	**17,849**
Sales - Units	1,200	1,600	2,000	4,800
Average Price	23.50	23.50	24.50	
Total Sales	28,200	37,600	49,000	114,800
60% Cash	16,920	22,560	29,400	68,800
40% Credit	11,280	15,040	19,600	45,920
60% pay in 1 month	0	6,768	9,024	15,769
30% pay in 2 months	0	0	3,384	3,384
10% pay in 3 months	0	0	0	0
Total Collections	**0**	**6,768**	**12,048**	**18,186**
Inventory Purchases - 66%	**18,840**	**24,640**	**33,000**	**72,120**

Notes to Cash Flow Projections:

January telephone expense is actually a deposit due to the telephone company.

January advertising had to be prepaid to establish creditworthiness. Subsequent expenses were on 30 days credit.

January sales expenses represented an advance to the salesperson.

The following items are on 30 day terms:

< Inventory payments
< Telephone
< Advertising
< Sales expenses

Rent is considered payable in advance, on the first of each month.

Equipment purchases totalled $43,350. The firm paid $4,350 down and took a five year loan (not reflected in inflows and outflows) for $39,000 to cover the balance. Interest at 10% per annum is payable on the last day of each quarter and is calculated on the opening balance for the quarter in which it was paid.

The firm expects that 60% of its total sales will be cash sales. The other 40% will be on credit. It is estimated that credit sales will be collected as follows:

< 60% will be collected in one month;
< 30% will be collected in two months;
< 10% will be collected in three months.

A price increase in inventory of $1 per unit is expected effective in March. This will result in a price increase to customers of $1 per unit effective March 1. Sales are based on estimated unit sales multiplied by known unit selling price; inventory purchases are based on an estimated 60% cost of sales, with a further 10% of the cost of sales for building an inventory "cushion". Total inventory purchases, therefor, are approximately 66% of total sales.

PDQ COMPANY LIMITED

Projected Income Statement for the Period Ended March 31

INCOME		
Sales		114,800
COST OF GOODS SOLD		
Opening Inventory	0	
Purchases	76,120	
Available for Sale	76,120	
Less Ending Inventory	7,200	
Cost of Goods Sold		**68,920**
Gross Profit		**45,880**
EXPENSES		
Salaries & Benefits	13,200	
Telephone	600	
Postage	102	
Office Supplies	530	
Printing	810	
Insurance	300	
Advertising	3,500	
Sales Expense	730	
Rent	2,250	
Depreciation	2,167	
Bank Charges	30	
Interest Expense	975	
Total Expenses		**25,494**
NET PROFIT		**20,386**

Notes to Income Statement

Inventory is accounted for on a first-in, first-out basis.

Invoices or the following amounts are expected to be received before the end of the quarter but not paid because the firm will be on 30 day credit terms:

< Telephone $150
< Insurance $300
< Advertising $1,500

< Sales Expenses $300

Depreciation on equipment is calculated on a straight line basis for the estimated five year life of the assets. There is a $0 salvage value. Actual amounts will be recorded as $2,167 in the first and third quarters of each year, and $1,268 in the second and fourth quarters of each year.

Sales include all sales actually made during the period, whether collected or not. Inventory purchases include all inventory purchased during the period, whether paid for or not.

PDQ COMPANY LIMITED

Projected Balance Sheet for the Period Ending March 31

ASSETS		**LIABILITIES**		
Current Assets		Accounts Payable	35,250	
Cash	32,849	Long Term Debt		37,700
Accounts Receivable	27,104			
Inventory	7,200	**TOTAL LIABILITIES**	**72,950**	
Total Current Assets	**67,153**			
		EQUITY		
Fixed Assets		Common Stock	15,000	
Equipment, at cost	43,350	Retained Earnings, Current Period	20,386	
Less Accum. Depreciation	2,167			
Net Fixed Assets	**41,183**	**TOTAL EQUITY**	**35,386**	
TOTAL ASSETS	**108,336**	**TOTAL LIABILITIES & EQUITY**	**108,336**	

Notes to Balance Sheet

Accounts payable consist of the following:

< $33,000 inventory purchases
< $150 telephone
< $300 insurance
< $1,500 advertising
< $300 sales expenses

Long Term Debt was calculated as $39,000 original amount less $1,300 payments during the quarter, leaving $37,700 outstanding.

The common stock represented as $15,000 represents the owner's initial cash contribution to start the firm. This corresponds with the $15,000 opening balance shown on the cash flow statements.

APPENDIX 3-1
DEFINITIONS

Cash-basis accounting: recognizes income only when funds are actually received, and expenses only when funds are actually disbursed.

Accrual-basis accounting: recognizes income when invoice is issued, regardless of when (or whether) funds are received, and expenses when invoice is received, regardless of when funds are disbursed.

Income statement: shows the financial activity of the enterprise for a given period.

Income: money earned by an enterprise, usually for the sale of goods and services the enterprise provides.

Expenses: money spent by an enterprise to earn income.

Profit (loss): the difference between income and expenses. Where income exceeds expenses, a profit is shown. Where expenses exceed income, a loss is shown.

Balance sheet: shows the financial condition of the enterprise at the end of a given day.

Assets: things of value owned by an enterprise. A **current** asset is one which is expected to be converted into cash within twelve months of the balance sheet date. A **fixed** asset is one which is expected to be held in the enterprise for an extended period of time.

Liabilities: things (usually money) owed by an enterprise. A **current** liability is one which is expected to be paid within twelve months of the balance sheet date. A **long term** liability is one which will take longer than twelve months to pay.

Equity: the net worth of the business (see also "balance sheet equation"). Equity consists of the owner's original investment in the business (capital or stock), plus any profits or losses retained in the business.

Debt: other people's money. Debt can be credit extended by suppliers or loans made to the enterprise by financial institutions, friends or relatives of the entrepreneur. In very large public corporations, debt also included bonds and debentures.

Balance sheet equation: Assets = Liabilities + Equity.

Ratio analysis: the process of comparing financial figures for an enterprise with its past performance and with industry norms. The object of ratio analysis is to spot areas where the enterprise may be having trouble and to suggest ways to avoid further or future trouble.

The "T" account: a convention used by bookkeeping students to familiarize them with basic bookkeeping.

Debit: in a "T" account, an entry to the left of the central line.

Credit: in a "T" account, an entry to the right of the central line.

	Debit	**Credit**
Asset	+	-
Liability	-	+
Equity	-	+
Income	-	+
Expense	+	-

4 HUMAN RESOURCES

As an entrepreneur, one of your most vital jobs will be to understand and motivate people: yourself, your partners, your employees or your customers. Is is the one thing that nobody but you can do. Our purpose int this section is to acquaint you with some theories on behaviour and motivation, and to discuss hiring, motivating, and appraising employees.

4.1 Behaviour Models

The study of what makes people do what they do is far from an exact science. Psychologists, however, have developed a number of theories in an attempt to explain behaviour. While none of these theories is 100% accurate, tests have shown that each of them does have applications in various situations. In this section, we will look at some of the better known theories.

4.1.1 Leavitt's Cause/Motivation/Behaviour Model

This model provides a good introduction to much of behaviour theory. Leavitt holds that all behaviour is caused by external factors, such as beliefs or values which are conditioned by the environment; that all behaviour is motivated by internal factors, such as needs, wants or desires; and that all behaviour is directed towards goals that will satisfy the causes and motivations. According to Leavitt, to understand a person's behaviour, you need to understand the external causes, the internal motivations and her goals.

At times, people display behaviour which is far from goal oriented. This behaviour, which seems to be a contradiction to Leavitt's theory, is in fact in accordance with it. People act in this way when their attempts to achieve their goals are frustrated. According to Leavitt, frustration can result in three types behaviour: aggression, withdrawal and fixation.

Aggression is forceful, attacking behaviour. It is either constructively self-assertive and self-protective, or destructively hostile to the individual and others. Although it is easy to recognize physically aggressive actions, they are not the only kind. Often, a person will take "non-violent" aggressive action, such as spreading rumours, taking sick days or some other form of work slow-down. In other instances, the aggression will be taken out on people who have nothing to do with the problem. For instance, it is possible that an employee who cannot retaliate against his boss will vent his aggression against his family.

Withdrawal is physically or mentally removing oneself from a frustrated situation. This may mean resignation from a job or a retreat into fantasy or even nervous breakdown.

Fixation is continuing behaviour which the individual already knows will not resolve her frustration. This usually works when the cause of the frustration is overt (external or physical). However, it may not work when the cause is covert (internal, psychological). In this case, people often revert to the frustrated behaviours noted above.

4.1.2 Maslow's Hierarchy of Needs

Maslow noted that there appears to be a definite rank or priority (a hierarchy) of needs. He has identified five kinds of needs. In order, from the most basic, they are:

< *Physiological needs.* This relates to our need for shelter, warmth, food, water, clothing and sex, among other things.

< *Security needs.* We want to know that we will continue to be safe and free from major upsets such as robbery, accident or job lives, in our lives.

< *Social needs.* Man is a social animal and, as such, needs the companionship of others. He also needs love.

< *Self-esteem and the esteem of others*. We all want to know that we are important in some way. This need for approval and self-respect contributes to a feeling of self-confidence, worth and capability.

< *Self-actualization need.* At some point in our lives, we all desire to accomplish something of significance. We want to be able to look at our lives and say that they meant something. This gives us a feeling of self-satisfaction which needs no external support. This is self-actualization.

Maslow holds that we are motivated by the lowest substantially unfulfilled need level. If someone has just lost their house, an appeal to their social needs will not motivate them to do anything. Motivation will only come from an appeal to their need for shelter (physiological needs). Likewise, if all basic physiological and security needs are satisfied, a person is much more likely to be motivated by an appeal to their social needs than by one to their need for shelter.

4.1.3 Herzberg's Hygiene/Motivators Theory

Herzberg was specifically concerned with motivation of employees. His theory holds that an employer needs to address two "sets" of needs: hygiene (which ensure that there is no job dissatisfaction) and motivators (which ensure that there is job satisfaction).

Hygiene, or "maintenance" factors include company policy and administration, supervision, working conditions, interpersonal relations, salary/wage, status, job security and personal life. Satisfying these factors doesn't guarantee that employees will be satisfied with their jobs; it merely means that they will not be dissatisfied with them.

Motivators, on the other hand, directly affect the amount of job satisfaction an employee has. Motivators include achievement, recognition, responsibility, advancement and opportunity for growth.

Hygiene factors deal with the environment in which the work is done, while motivators are concerned with the work itself. Herzberg's main point is that the work performed by employees must give them a psychological "pay off" or satisfaction. If they get that pay off, employees will work much better and more efficiently for you. Once again, however, the secret is to determine what pay off an individual employee is looking for.

4.1.4 McGregor's Theory X/Theory Y

McGregor, like Herzberg, was concerned specifically with people in work situations. He was one of the earliest management theorists (about 1965) whose work found widespread, popular acceptance in business circles.

McGregor said their were two views of employees. The theory X view was that employees were lazy, unmotivated except by fear and greed, shirked responsibility, avoided doing anything beyond the minimum requirements of the job, and hated work. This view, based on observation, accurately mirrored attitudes held by many managers since time immemorial. It set the stage for confrontation and coercion as a primary method for dealing with employees, and created a management "class" which inherently distrusted employees. The spread of unionism in the 1920's and 1930's fed this view.

However, McGregor also observed that some companies took an alternative view, which he called theory Y. Theory Y is the opposite of theory X in every way. It assumes that people seek challenge, work and accomplishment, that they are primarily self-motivated, that they crave responsibility (as well as authority), look for ways to exceed minimum job expectations, and enjoy work as a natural part of human makeup.

McGregor put forth the idea that a company's "troubles" with employees could really be management's own attitude problems, and that, rather than changing the employees, the solution lay in changing management's attitudes. This idea ran into some early resistance, and prompted a serious experiment, as well as a less scientific test.

The experiment involved two similarly-sized, new plants of the same company. When the first plant opened, it was managed by theory X methods, while the second was run using theory Y. It was agreed by company management and the people running the experiment that productivity was to be the measure of success of each method. What happened was, the theory X plant jumped almost immediately to a very high level of productivity and plateaued there. The theory Y plant, on the other hand, showed terrible productivity for the first three months of the experiment, but after that, productivity increased dramatically. At the end of the six month experiment, the theory Y plant's productivity was actually marginally higher than that of the theory X plant, and was continuing to increase.

The less scientific test involved Avis Rent-a-Cars in the US, and was the subject of a book by company president Robert Townsend. Briefly, when Townsend took over Avis, the company was losing money hand over fist, and observers said that the first thing he needed to do was fire everyone in the entire company. In about a year, he turned the company around, in every sense of the term, and he did it without firing a single person; he simply used theory Y.

4.1.5 Maclelland's Three Needs

Maclelland identified three needs which he said motivated all behaviour, either singly or in combination. In identifying these needs, he built, to some extent, on the work of the four theorists we have already discussed.

The three needs are:

- N_{POW}, the need for power. This includes power over others as well as power over ones self and ones circumstances. Maclelland felt that the need for power drove many managers. It is important to understand that he did not see this need as negative, but as merely a fact; he recognized that power, especially over ones self, could be used begninly in an employment situation. Problems could arise if the need was thwarted, or if it was not carefully channelled by those in charge.

- N_{ACH}, the need for achievement. Discussions of this need often focus on sports figures, whose need for achievement can be seen as a driving force in their performance. However, Maclelland points out that others experience a similar need for achievement, and that, as motivators and managers, it is up to us to identify those individuals with this need, and formulate objectives for them to achieve.

- N_{AFF}, the need for affection. Everyone wants to be liked, and Maclelland, along with Maslow, has identified this as one of the important motivators for people. Affection, as Maclelland discusses it, can be experienced through any kind of positive feedback which we receive. In workplace situations, a better way of expressing this need would be a need for recognition.

Maclelland's "bottom line" was that, as management, we need to identify which of the three needs motivated individual employees and then direct that need to the service of the organization.

4.2 Hiring Employees

The secret to hiring good employees lies in knowing what you want them to do, and being able to recognize the kind of person who will do it. This sounds simple, but many people do not take the time to do it. This accounts for most of the human relations problems companies experience. To help you avoid the problems of hiring the wrong people, we suggest the following hiring procedure.

4.2.1 Develop a Job Description

Job descriptions have gotten a bad name recently because they tend to lock people into a specific set of tasks and allow little room for growth. However, when we talk about a job description, we are talking about a more open idea.

First, do not define the job by a title. This usually limits your perception of what the employee should be doing. Instead, try and group related tasks that you want accomplished together. If there is enough there to keep one person busy, and you can justify it financially, then you have a job description. If not, keep looking for other related tasks.

Next, give some consideration to the growth of the job. Often, as a person grows into a job, the job itself then grows to take in new tasks and responsibilities. In designing your job description, ask yourself what areas this position could expand into.

You now have developed a good job description.

4.2.2 Develop a Personality Description

What kind of person should you hire to fill your new job? To answer this question, you will need to do considerable thinking and you will have to be honest with yourself.

First, ask yourself what kind of person you are to work for and with. This is where honesty comes in.

Next, decide what kind of person you can work productively with. Particularly in a small enterprise, any person you hire should have personality traits which complement your own. You probably would not want, and certainly should not hire, someone who is a carbon copy of yourself. Instead, look for those characteristics which would strengthen you and your company.

What kind of a personality is called for by the job description? Each kind of needs a different kind of person to do it, and you should give consideration to your job description. What kind of person would best fill it? Be careful here to avoid stereotypes (accountants are quiet, wimpy people; sales people are loud, brash and obviously aggressive, etc.) by concentrating on essentials instead (a bookkeeper should pay attention to details, a sales person should enjoy meeting people, etc.).

What skills does your prospective employee need? Just as each kind of job calls for a specific personality, it also requires a set of skills and abilities. Most jobs, at any level, require good communications skills. An ability to organize tasks and time is also a prerequisite for most positions, as is the ability to make independent decisions and implement them.

What about technical or functional skills? Familiarity with your type of business? These are probably less important than those discussed above. However, you should decide what technical and industrial expertise you need in an employee and how far you are willing to go in training the employee to acquire those skills.

Now you know what your ideal employee will be like. Since you can seldom hire an ideal person, you must think about priorities. Of all the items you have listed, which is most important to you? Which is least important. What are you willing to sacrifice, and for what will you sacrifice it? What you are doing here is making a list of potential trade-offs because, in reality, you are unlikely to come across someone with the exact personality and skills set you need. So you decide what is important, what you are willing to train for, what you are willing to allow to develop and what you're willing to do without.

Finally, you must develop some way of testing for the important qualities. You will need to rely on your judgement to a large extent, especially where personality traits are concerned, but you can and should test for skills. If possible, work your test into conversation with job prospects. Otherwise, do not be afraid of asking them to sit down and so some form of written test. After all, you wouldn't hire a typist without finding out whether and how quickly s/he could type. Why would you hire for any other position without knowing whether the applicant possesses the necessary skills?

Part of the testing process is deciding how to evaluate the results. You have already decided on specific skills and personality types. Now you need to determine how you will weight those skills and personality to come up with a composite "rating". It is at this point that your list of trade-offs will serve you well. From this list you will be able to set up a rating or evaluation system. Applicants would be rated by their strengths in important skills/traits. The best qualified person (or people) are your candidates.

4.2.3 Develop Recruitment Sources

Now that you know who you want to hire, you can go about hiring her. To do this, you will need to develop sources of potential employees. We have listed the most common source of job candidates below:

< word of mouth
< newspapers
< high schools, colleges and universities
< Canada Employment Centres (CECs)
< competitors
< employment agencies

Each type of source has its good and bad points. Word of mouth and CECs are usually cheapest, but they are most limited. Word of mouth reaches only your circle of friends, acquaintances and relatives, how may forget all about your search for employees. CECs sometimes mis-classify jobs and, even in an era of high unemployment, also suffer from a lower reach than other methods.

High schools, colleges and universities are frequently an excellent source of job candidates, but usually only as graduation nears. In addition, although you normally do not pay the school anything, there is a cost in your time as you may be required to do interviewing at the school rather than at your offices. This can be a drawback, particularly if your business if very young and your presence is required there on short notice.

Competitors are a good, if dangerous, source of potential employees. In dealing with someone who works for a competitor, you must be very cautious lest the competitor find out about it and either fire the employee or spread stories about how you tried to "pirate one of my best people away." Either of these things would be undesirable because they would reflect on you, especially if you did not hire the fired person. In addition, you may, during the course of discussions with him, reveal information you would not want your competitor to have. Yet, if you ultimately decide not to hire your competitor's employee, that person would be quite free to pass on your information to her boss.

Newspapers have an up-front cost, but give you a fairly wide coverage among potential employees. The chief drawback with a newspaper is that you cannot include much information about the type of person you are seeking, nor can you say very much about your enterprise. Newspaper ads generally include a job title, which may not be appropriate for your opportunity either. However, if you can afford a large, display-type ad in the classifieds, you will be able to be much more detailed in the information you provide. This means that you are much more likely to attract the right kind of applicant.

Employment agencies operate one of three ways. Some act as a source of unemployed job-seekers without charging for the service. Some charge the job-seeker for placing him with em employer. Most charge the employer for finding an employee. Some of these last firms will charge whether or not they actually help you hire someone. Finally, as with any industry, there are some companies who are not as concerned with your needs as they should be, or not as skilled as they should be.

Employment agencies can be a smart move if you have the money and the agency is a good one. However, this alternative is full of problems for the beginning entrepreneur, and we recommend it only as a last resort.

4.2.4 Selection

Once job candidates start coming to you, you will have to decide how you are going to make your choice, and what tools you will use to help you.

Since you will want to do some initial screening before you start meeting people, it is a wise idea to ask for a resume. With the proliferation of companies that help job-seekers design resumes, many firms are now asking for hand written submissions. Such a resume is less likely to be "packaged" because companies that design them normally type-set and print them. Even if an applicant does write out a "designer" resume, the handwriting itself will tell you something about her. Some firms actually retain the services of a graphologist to analyse handwritten resumes.

From the resumes you have received, select the most likely candidates and arrange for a meeting. You may wish to have candidates fill out an employment application (available at most stationery stores), especially since most application forms allow room for "personal interests" which are not always included on resumes. While you are not allowed to ask specifically for this information, it may be allow you to judge whether there is likely to be any personal compatibility between you and the applicant. This is important, since you should be able to get along with your new employee.

Ask for references. While few people whose names you are given would tell you that the candidate is a disaster as an employee, you may be able to pick up hints of potential problems from tone of voice or general demeanour of the reference. Also, the willingness of the candidate to supply you with references will tell you something about him as well.

In section 4.2.2, we talked about tests which you devise. The interview is an appropriate time for them. In addition, some human resources consulting firms supply tests. If you have the money, or the position for which you are hiring is for a senior person, it may be worth your while to use such a service. Otherwise, rely on your own tests.

Evaluating candidates is a difficult business. You are best to make notes during the interview on his answers, and you should make notes after the interview on such things as demeanour, apparent self-confidence, poise and your general reaction to him both as a person and as a potential employee. Use these notes, the resumes, test results, references and the application forms to help you decide. If you have narrowed it down to two or three individuals, invite them back for a second, more detailed interview. You should spend enough time with each candidate at this second meeting to give you a solid feel for her as a person and as a potential part of your enterprise.

At the end of the process, select the candidate you feel best fits your overall requirements.

4.2.5 Training

No matter how perfect the employee, you will have to train her to some degree. Even if all you need to do is get her used to the way you do things in your company, it is still training.

Since you made a list of important capabilities and traits, and rated your new employee against that list, you will have a good idea of what her shortcomings will be. You will also know how quickly she needs to develop those areas, and, finally, you will know how willing and able you are to provide training.

Determine where training is most needed and decide whether you will provide it yourself or go outside for it. There are many organizations which provide training to business: colleges and universities, private consultants, non-profit groups and some government departments. A good starting point for learning about the available courses is your local college or CEC.

If you elect to carry out the training yourself, design a course which builds logically from the level your employee is at in the beginning, to where you want him to be. If you can afford the time, you may be able to give a "crash course"; otherwise, plan on spreading the program over several weeks. As with anything else, be sure that you have provided for evaluation of progress, and let your employee know how he is doing.

4.3 Motivating Employees

An enterprise's employees are its greatest asset. This is a common wisdom, yet it is not always followed. Many owner/managers treat employees like a lower form of life, not to be trusted. They then wonder why they can't get good people to work for them.

A wise entrepreneur sees employees as contributors to the success of the enterprise. She lets them know this, both by telling them and by her actions. Delegating responsibilities to staff, making them responsible for their own areas of operation, giving them authority to take action in their areas of competence and listening to their ideas, complaints, and suggestions all show that you really do value them. This will go a long way towards motivating employees. It will also serve to build morale in your business.

In section 4.1, we looked at some behaviour models. All of them talked about needs or goals. During your selection process, you should have found out enough about your employees to give you an idea what their goals are. Questions such as "Where would you like to be with this company in five years' time?" should uncover their aspirations. This is information you can use in motivating them.

Once you have hired an employee, discuss with them your company goals. Let them know where the firm is going, and ask them what they can contribute to that. PAY ATTENTION TO THEIR ANSWERS, because you may learn something which is of real value to you. Make this an on-going part of your operation, and include all employees in it. At the same time, let them know what progress you have made toward achieving company goals. This gets them involved, concerned and motivated.

However, even in the best of companies, there may arise a situation when one or more employees is dissatisfied. Then you must take on the role of problem solver.

< *Identify the problem.* What is wrong? What behaviour first alerted you to the problem? How long has it been going on? Is it the real problem, or just the symptom of another problem?

< *What is the cause of the problem?* The individual? The task? The organization? External factors? What can you do to correct the situation?

< In any work situation, you can change some of the following factors: the task, work conditions, and the people. Decide which you can modify in your particular case, and determine how far you will have to go to solve the problem. Then weigh the costs of modifying the chosen factor(s).

< Which behaviour model could you use to help understand the situation: Leavitt, Maslow, Herzberg, McGregor or Maclelland?

< Evaluate your alternative solutions to see which will have the best effect on the situation.

< Select the best one and put it into effect.

To do this effectively, you will need to use your skills as a listener and a communicator. That way you stand a better chance of understanding the problem and explaining to the individual(s) involved how you propose to solve it. As with motivating employees, be open and honest and expect openness and honesty in return.

4.4 Employee Appraisals

A major part of managing employee performance and motivating employees is providing feedback, both to them and to yourself, as the manager, on how their abilities are growing. The formal method of doing this is through a system of performance appraisals.

Appraisals can be developmental (aimed at identifying ways in which the employee can become better at the various components of his job) or comparative (rating the employee against his colleagues with a view to handing out rewards or punishments). Predictably, we are going to focus on the developmental side of the process as being more in keeping with the overall tone of management in the 1990's.

4.4.1 Criterion

To properly evaluate performance, we need a standard. "Old" appraisal theory encouraged the use of a single appraisal form for all employees. This was fine when the purpose of the process was comparative, but doesn't work so well if we focus on development.

"New" theory asks us to identify a performance criterion for each "type" of job for which appraisals are being done. The criterion answers these questions:

< *What is the outcome of the performance?* How would we know good performance if we saw it? For a mechanic in a automotive repair facility, the outcome of the performance might be: "Diagnoses and repairs vehicles correctly the first time, maintaining customer focus".

< *Under what conditions do we expect this performance?* For our mechanic, the condition might simply say "under normal circumstances". This is perfectly OK, provided we are able to identify what "normal circumstances" means.

< *What is the ultimate benefit of the performance?* If the employee can maintain this performance, who benefits, and how? In the example we have been using, we might explain "to enhance the reputation of the company and continually improve his/her marketable skills."

As you can see, there is a fair amount of work involved in putting together a criterion, but the ultimate benefit to you is that you will have a tool for increasing the effectiveness of your employees and, in the last analysis, improving the performance of your business.

4.4.2 The Appraisal Form

Once you have identified the criterion, you can go on to specific measurements of it. In our criterion, we have several parts, each of which will lead to statements of measurement:

"Diagnoses vehicles correctly the first time...": If the mechanic did this, how would you know? What would she need to be able to do, or what would she know? In this case, there

would be few returns of vehicles because the problem was misdiagnosed. The mechanic would have to question the vehicle owner in such a way as to determine probable difficulties, and would also likely have to know enough about cars in general and the customer's car in particular to make some educated assumptions about what the problem really is.

"...and repairs vehicles correctly the first time...": The mechanic would be judged on whether cars were returned because the problem, although it was identified correctly, wasn't fixed right. There would naturally be a knowledge issue here - the mechanic would have to know how to fix the problem, and should know (or be able to learn about) the quirks of individual cars.

"...maintaining customer focus...": In the 1990's, this is becoming extremely important. Many organizations say they are customer-driven, or at least customer-focussed, but how well does that translate to the shop floor? For our mechanic, examples of measurements might be providing small, value added services (leaving the vehicle clean, removing the paper floor mats, resetting the radio stations and digital clock, etc.), and referring to the vehicle by the customer's name, rather that "that green Pontiac".

"...under normal circumstances...": This means that we know that, when the shop is severely backed up, performance may not be up to our regular standards, but, having said that, in normal circumstances, it ought to be consistent.

"...to enhance the reputation of the company and continually improve his/her marketable skills.": This is a bit of a double whammy, but, again, does the performance enhance the company's reputation? How does the employee contribute? There is a theory that every employee is a sales person; how does our mythical mechanic function in the sales mode? Does she speak positively about the garage, or take every opportunity to run it down? As to the second part, does she take advantage of opportunities, both formal and informal, to learn, thereby increasing her marketable skills?

For each of the performance measurements, devise some sort of rating scale which can be easily understood and consistently interpreted. The problem with the old "1 to 5" scale is that what you understand as a 5 might be dramatically different from what I understand. "Excellent...good...fair...poor...unacceptable" is an improvement on this, and you might also decide to include some measurement of consistency, such as "Always...usually...often...sometimes...seldom...never".

4.2.3 Administering the Appraisal

Before appraisals are done, it's a good idea to find out from employees what they expect as a result of having a job with you. This can cast some light on their performance, and also gives you information which can be used as part of your motivational program.

Many companies ask their employees to rate themselves at the same time as they are rated by their managers. The two then get together, compare appraisals, and agree on the appropriate ranking (although sometimes the agreement doesn't happen).

When conducting appraisals, vary the schedule. If everyone knows when they are going to be evaluated, they may change their performance around that time. Unconsciously, we are all aware of a tendency in appraisal known as "recency of events": things which happened yesterday stay in our minds more than things which happened six months ago. Varying the schedule means that employees will be unaware of appraisal dates and will, consequently, maintain a normal behaviour pattern. As the manager, however, you must be aware that chance recent occurrences should not be weighted any more than necessary. If an employee is involved in a project which has gone disastrously wrong, this should be balanced, in your evaluation, with the rest of their performance, which may be exemplary.

Watch out for "central tendency". In appraisals, this means having five alternatives and consistently selecting the central (third) one. If you are designing your form from scratch, use only an even number of alternatives, particularly if you are using numerical scales. If the form already exists, or you are using someone else's form, select only the middle alternative when it really fits, rather than as an "easy way out".

Beware of the "halo effect". This occurs when you have an affinity for an employee - we tend to be more lenient with those we like. The reverse is also true - we are harder on those we don't like. Both of these problems can cloud the results of an appraisal. Comparing notes with the employee can go a long way towards dealing with this.

Since we have adopted a developmental approach, the aim of each appraisal should be to identify what the employee does well, so she can do it more consistently, and those areas in need of improvement. Where improvement is called for, a developmental plan should be agreed on, as should interim measures of success. The employee can then review progress with you, so you both know that positive things are happening.

Conducted in this way, appraisals are both developmental and motivational tools, and can greatly enhance the performance of your employees, yourself as a manager, and your business.

5 MANAGING PROCESSES

Each enterprise, whether manufacturing, retail or service, has a process which it follows. This process may involve movement of a physical product, information, written material or ideas through the company. As an entrepreneur, you should understand the concepts of process so you can streamline yours as much as possible.

5.1 Kinds of Processes

There are three basic kinds of processes with which businesses work. They are known as continuous, job shop and project, or custom. Each type meets a specific need, as the explanations which follow will show.

5.1.1 Continuous Process

A continuous process is best suited to extremely long runs of undifferentiated products or services. The manufacture of candy bars or the service provided by a fast food restaurant are examples of continuous process. Normally, highly specialized machinery or equipment is used, and economies of scale are a major factor for the business. In addition, you can notice that there is little customer-orientation; that is, nothing is being produced for a specific customer. Instead, all customers get the same basic product.

The advantage to continuous process is that, once it is set up, it is very easy to manage. Since the equipment used is specialized, it is often designed (or modified) to work together, so there is little risk of bottle-necks (see below). Once the process has begun, it is comparatively inexpensive to run - direct costs associated with it are low, although the capital cost involved with getting it going can be high.

The disadvantages are similar to the advantages. Since the equipment is specialized, it cannot be adapted to perform any other tasks easily. "Retooling" can be expensive, if it is not impossible, and, because of high capital costs, most companies don't have redundant backups, so a stoppage can be expensive in terms of lost revenue. In addition, continuous process is most suited to commodities, and the trend of our times is away from commodities and towards increasing customization and customer-orientation.

5.1.2 Job Shop Process

A job shop specializes in short to medium runs of a given product or service, and can change over to produce others. Printers are examples of job shops, since they are customer-oriented (each job is produced for a specific customer), and still produce runs of the product. Machinery and equipment is more versatile, and is frequently assembled piece-meal (that is, different pieces of equipment from different manufacturers). While initial capital costs may be lower than for continuous production, operating costs are higher.

The advantage of a job shop process is that it is versatile, and can be adapted to produce a variety of different products or services. Thus, while a continuous process is subject to market shifts (and can be wiped out by them, if they aren't anticipated), a job shop is less vulnerable. Changes (or "retooling") are comparatively easy and inexpensive to make.

The disadvantages are that operating costs are higher, especially since the skill level of the employees operating the process must be higher than comparable continuous process employees. Since the equipment has not necessarily been designed to work together, there is a greater risk of a bottle-neck occurring, which can slow down production tremendously. In addition, compatibility problems of other sorts can arise if the process is poorly designed.

5.1.3 Project/Custom Process

In a project or custom process, as the name suggests, each individual product unit is destined for a specific customer. Machinery or equipment tends to be general purpose, and adaptable easily to different types of products or services. Engineers (including software engineers) are an example of a project/custom process.

The advantage of this process is that it is highly customer-oriented, and very flexible. It uses a wide range of general-purpose tools to turn out its product or service, so that initial capital costs can be relatively low. The versatility this implies is useful in allowing the company to adapt easily to changing market needs, even including dramatic shifts in the market.

The disadvantage is that custom process requires a relatively high skill level from the employees operating it. Often, as in the example of engineers, those employees are professionals, including skilled tradespersons. This means that the cost associated with the process are high. In addition, there is a sales challenge in that, unless there is a customer, there is nothing to produce and employees can be idle. Sales staff (this could mean you, the entrepreneur) must, therefore focus on securing a steady stream of work. Because of the cost of custom work, however, the number of potential customers can be relatively small.

5.2 Problem Diagnosis

If you run into problems with your process, you will need some tools to help you diagnose and fix them.

Begin by identifying which process model you are using. Is it one of the "pure" models presented above, or is it some hybrid of them (for instance, fast food restaurants, basically continuous shops, allow customers to select their own toppings, or to special order their meals, combining continuous and custom process).

Second, identify the individual steps in your process - starting at the beginning and moving to the end, what happens (or can happen) to your product or service? Especially for service businesses, it may be a good idea to examine the total process in your business, including all the paperflow, sales and administrative issues. It may be useful to you to diagram or chart your process(es).

Does each step of the process serve a purpose? What purpose does it serve? Is this the best way of meeting that purpose? Over time, useless or inefficient steps may creep into a process, causing delays and ineffective production. This is the first area where problem-solving can produce results.

Is there a bottleneck? If most of the process moves at 80 units per hour, but one key part moves at only half that, the slow area represents a bottleneck which can jam production and cause problems. In the diagram or chart of your process, indicate capacities (whatever is relevant for you), to help you identify bottlenecks. In deciding whether to fix the problem, look at how much of your production must go through the bottleneck - is it really an issue? If only 6 units per hour go through your 40 unit per hour "bottleneck", it really isn't slowing down production.

Examine the paper generated by your business, using some of the same logic. Does each piece of paper serve a purpose? In answering this question, remember that the purpose it serves may not be your own (government paperwork comes under this category). Could the paper suit its purpose better if it was redesigned?

5.3 Designing Your Process

Because you are starting at the beginning, you have the opportunity to design the process best suited to your needs.

First, should you use (or could you use) continuous, job shop or custom process? Evaluate your needs realistically, and then make your decision. Bear in mind the pros and cons of each process, especially issues of flexibility and cost.

Look carefully at the steps you incorporate into your process. Each should serve a purpose, and none should be superfluous. The machinery or equipment you use should be built around your process, rather than the reverse. This helps keep everything on track and on purpose, and avoids trade-offs which may not help you down the road.

What is the physical work- and paperflow pattern? If you have two people who need to work together, sit them side-by-side, or across from one another, rather than back-to-back or in different areas of your facility. Seating patterns should follow workflow whenever possible; you would be surprised at how seldom this is done, and some facilities, when you diagram the workflow on top of the plant, look like someone dumped a bowl of spaghetti on the shop.

At each step of the design process, ensure that you are functioning in the most efficient way you have available to you at the time. As you gain skill, you will find you need (or want) to change your process. This is normal and should be expected. The time you spend revamping your process is well-worth it. As with anything else, continuous review is the best approach.

6 STRATEGIC AND BUSINESS PLANNING

There are three great virtues in business: planning, planning and planning. And the greatest of these is planning. With that in mind, we will examine the preparation of a business plan for your enterprise. This section will draw together much of the material discussed previously, and will introduce some key concepts which will contribute to your success.

6.1 Mission, Goals and Philosophy

When you form your business, you normally have an idea of what you would like it to become. This idea is your highest aspiration for the enterprise. It reflects your hopes for quality and tells, at the same time, something about what the firm really does. This is its mission. It is the guiding force behind everything you do, and should be the standard against which you measure all your actions in business.

A mission statement, which sounds like an exercise in wasted time to the practical, results-oriented entrepreneur, is actually most important, since it is the foundation of the enterprise. From the mission statement flow goals, objectives, strategies and tactics. The mission statement unifies them by providing a common aim.

In concrete terms, how can you develop a mission statement? It is not necessarily a hard process, but it requires some thought because your mission statement must stand the test of time. It should include what it is that is most important to you that your enterprise become, and make a general statement about what it will do. It often says something about your intended market since market influences much of what you do. For psychological reasons, we recommend that, although mission deals with hopes, it be stated in the present tense.

The process starts with "visioning": thinking about what you would like your business to become or do. For instance, a variety store owner might want the store to: be a friendly place where neighbours meet to talk; where kids can come if they are lost; where people feel they are getting a good quality and range of merchandise at a reasonable price; a platform from which the owner can exert influence to beautify the neighbourhood; a source of pride to the neighbours because it avoids so many of the negative aspects normally associated with variety stores; and so on. This is his vision.

Notice the various elements of the vision: the idea of a positive force (ultimate aspiration) for the neighbourhood (market) and providing a service (range, quality and price which define the business) for the neighbourhood (market again). Having defined these elements, the store owner is now in a position to put them together in a mission statement: "This is a friendly store which acts as a focal point for the neighbourhood and provides its customers with selection, quality, good price and convenience."

The mission statement developed above may also act as a philosophy for the store. From the statement, the owner's concern for the neighbourhood comes through. This is reinforced by the vision. A concern for each customer and for the quality of the merchandise is also there, as a desire to be "fair" with customers. You might even say that the owner views customers as friends.

The mission and philosophy provide the owner with a reminder of what she wants the business to be. They also give her something to communicate to customers about the business. Constant reminder to customers about the very desirable things the owner wants the store to be, help build loyalty among them. It gives them something to identify with in the store. This is especially important with smaller businesses because the owner **is** the business.

To support the mission, the owner develops a series of goals. These goals clarify the mission. They are more specific than the mission statement, although they still are not time related. Usually, they are not quantity-oriented, although there may be exceptions.

Goals express the owner's values in terms of the environment in which the business operates. This means that the business owner looks at her environment (neighbours, government, society, and the wants, needs and expectations they have of business), and determines which factors it is appropriate and reasonable for her to address and deal with. Then she thinks about specific things she wants the business to accomplish. Finally, these specific accomplishments are compared with the mission statement (to see if they support it) and with the important external factors. Those things which do support the mission and fit with the external concerns become the firm's goals.

Our store owner might develop goals such as the following:

< To stock a supply of goods which meet our customer;s needs for range, quality, convenience and price.
< To enable me, as the owner, to make a comfortable living.
< To earn a good return on my investment in the business.
< To maintain an old-style "Country General Store" atmosphere in the city.
< To be active in programs to beautify the neighbourhood.

<	To be active in programs which benefit our neighbours.
<	To provide input to the city government on the concerns of this neighbourhood.
<	To become an important, if small, part of our neighbours' lives.

Note that, while the first three goals relate to the business side of the enterprise, the other five reflect the owner's concern with his neighbourhood and its well being. Because this is important to the owner, it shows up in the store's goals. This is as it should be, since those "community" goals directly support the mission statement.

To this point, we have dealt with mission, goals and philosophy. Of course, as good as it sounds, a business needs more concrete information if it is to succeed and prosper.

6.2 Objectives and Strategies

Objectives and strategies are specific things that the entrepreneur and those involved in the business want to accomplish. They are concrete statements which support the enterprise's goals and mission.

Objectives represent interim stages in the achievement of goals. They may be a specific share of the market which the entrepreneur wishes to capture, or particular levels of activity he wants to reach. Objectives measure your progress in achieving your goals. They are "mileposts" which show how far you have come and indicate how far you have left to go.

Good objectives have some or all of the following characteristics:

<	*They are specific.* There is no point in setting a generalization as an objective. The purpose of objectives is to provide you with a measurement of how successful you are in reaching your goals. They cannot do that if they are too general.

<	*They are quantified where possible and appropriate.* "Increase sales by the end of the year" is worthless as an objective because it does not say by how much sales are to increase. A 14 increase in sales would fulfil this objective. On the other hand, "Increase sales by 12% by the end of the year" is much better. It is a very specific milepost because it tells you how well you expect and want to do.

<	*They are time-related.* They have a deadline - a date by which the objective must be reached. Setting deadlines is important because, without them, the objective becomes less meaningful as a measurement of how well the enterprise is doing.

< *They support one or more goals*. If an objective does not support a goal, it is an incorrect objective for the organization. It goes outside of the stated purposes and aims of the business and, thus, weakens the entrepreneur's efforts to fulfil his mission. It also weakens the image of the business in its customers' eyes.

< *They are achievable.* There is no use in saying "This store will be as large as Future Shop by December 31 this year", if the store, on the day the objective is set, is a 1,500 square foot software store. No one could accomplish that objective. At the same time, be sure that YOU can accomplish it. Do not say "I will personally gain a 20% sales increase by the end of the year" if your business relies on direct, seller-initiated sales and you have no skills, experience or confidence in that area.

< *They support one another.* That is, achieving each objective will assist you in achieving others, and all of the objectives are consistent with one another.

Each organization will have an overall, governing strategy, based on an assessment of external and internal factors, and supporting the mission, goals and objectives. The traditional model of strategy development includes an examination of the business's environments, an evaluation of identified factors as strengths, weaknesses, threats or opportunities, and strategy selection based on this evaluation.

The environmental scan is known as a SWOT analysis (for Strengths, Weaknesses, Opportunities and Threats), and includes the following twelve areas of concern:

< *The general external environment:* the four factors of concern here are government or politics, economic, technological and social/demographic. Trends here are evolutionary, rather than revolutionary, so that it is relatively easy to identify events or possibilities which will affect the business. Government/political is concerned with the action government may take to promote or restrict business and the economy; economic deals with the economic cycle and distribution of income; technological looks at the stage of technology in general, and key developments which are underway; and social/demographic focusses on demographic and attitudinal changes which affect markets.

< *The specific external environment:* the four factors here are customers, competitors, supplies and labour. Customers takes information which may have been identified from the general external environmental analysis and relates it to the ways in which

customer demand is, or may be, changing; competitors examines industry structure to see how the specific organization doing the planning may be affected by changes occurring there; supplies looks at the plentifulness (or scarcity) of supplies needed by the business, including money; and labour is concerned with the stability and suitability of the labour force.

In both the above environments, we are looking for threats and opportunities.

- *The internal environment:* the four factors are finance, human resources, production/operations and products/product lines. Finance looks at the company's ability to meet its future demands, including capitalizing on opportunities and dealing with threats presented by the external environments; human resources is concerned with the way in which the company manages its people, and their suitability for current and future demands; production/operations deals with the company's ability to adapt its production to meet market changes, and issues of process control; and products/product lines examines the company's offerings to see whether they are in keeping with market demands, and are expandable/adaptable to increase company stability.

In the internal environment, we are concerned with strengths and weaknesses.

When strengths and weaknesses and opportunities and threats have been identified, you must then look at how soon they are likely to become factors. In strategic planning today, we use three time lines:

- *Short term:* the next twelve months.
- *Medium term:* two to three years into the future.
- *Long term:* four to five years into the future.

Place each threat, opportunity, weakness or strength on a timeline. This will give you an idea of what you will need to deal with, and when. In formal planning, this is the development of a planning base. It will be useful in identifying a strategy, and also for operational planning.

Next, choose one of the five "classic" strategic alternatives:

- *Growth:* this can be accomplished internally or externally, and can include moving closer to customers or to sources of supplies, or into related or unrelated areas. We consider growth to be the only viable long term alternative, and it is the only alternative for a business startup.

- *Status quo:* this is also called the "do nothing" strategy, although, for clarity, we prefer to think of it as the "do nothing different" strategy. It is the easiest to implement, since it doesn't require much new management action at all. In today's environment of rapid-paced change, however, it is probably the least suitable.

- *Retrenchment:* this strategy is often adopted by companies in trouble, but is equally suitable to companies which have undergone dramatic growth. Retrenchment gives a business the opportunity to look at what's working and what isn't, and to make decisions about what to keep and what to jettison. Unfortunately, it may also include decisions about lay-offs and downsizing, although this need not be the case.

- *Sell out:* this is never an option for a brand new business, but may be something you will consider in the future, once your business has matured, and you feel you have nothing else to accomplish there.

- *Combination:* often, no single strategy is suitable, and entrepreneurs find that they need to develop a combination. For instance, it may be appropriate to retrench in the short to medium term, and follow that with growth in the longer term. Alternately, it may make sense to maintain the status quo in one area of the business while undertaking aggressive growth in another.

Once you have developed suitable objectives and an overall corporate strategy, you need to plan ways to attain them. These ways are functional strategies. Each objective will have one or more functional strategies which support it. In addition, an individual strategy may support more than one objective.

A functional strategy, for our purposes, is a statement of an approach to achieving an objective. If the objective is to increase sales in May by 15% over May of last year, the strategy may be to make direct contact with prospective customers instead of relying on advertising. A more specific strategy would be to conduct a direct mail campaign to attract business.

The important thing to remember about a functional strategy is that your enterprise, with its available resources, must be able to accomplish it. There is no point in adopting a strategy requiring the expenditure of $30,000 if your bank balance is $1,539.26 and you have no way of obtaining the balance. Similarly, if a strategy requires technical expertise on staff which is not there and which you cannot get, the strategy is useless to you.

Strategy may be called "the art of the possible" because it must be based on an appreciation of the situation in the external environment and of your business's capabilities. In other words, you must develop a strategy (or strategies) based on reality, not on fantasy or wishful thinking.

Finally, there are tactics. Tactics, or implementations, are specific tasks which must be performed to successfully execute a functional strategy. For instance, if you decide on a strategy of increasing sales through the use of a direct mail campaign, you will need to decide on the specific approach to be taken in the mail piece, the list you will use to mail to, the number of letters you will mail each week, the duration of the campaign, how you will test the mailing, how you will evaluate the results, the specific offer you will make, whether you will use an agency to handle the project or will do it in-house, and so on. All of these tactical items will affect the execution of your strategy.

6.3 The "Continuous Improvement" Approach

Continuous improvement is a set of methods often used by business owners today in strategy development. It makes use of the vision/mission/goal/objective framework, and the SWOT analysis, but takes a somewhat different approach. First, while traditional strategic planning has been done by consultants or by a senior management team, continuous improvement relies on a team drawn from all the stakeholders of the organization: management, employees, and customers.

This team conducts the entire planning process, including information gathering, evaluation and plan formulation. The major benefit to this is that it means there is a significant "buy in" to the process by everyone involved, which increases the chance of successful implementation.

All team members brainstorm on the vision and mission, much as we have already outlined. However, arriving at an acceptable mission can be more difficult since the entire group must be in favour of it.

Next, goals are to be developed. The team leader or facilitator (if one is used) asks "How would we know that we are accomplishing our mission?" In other words, what visible evidence would there be? Since we are trying to develop goals, these would, of course, be qualitative things rather than quantitative and time related.

Objectives are identified by taking goals and asking "What stops us from achieving this?"

This question will usually yield a negative statement (eg. "We don't..." or "We can't..."). The team leader or facilitator then turns this around ("We need to...") and creates an objective by adding a quantitative measure and a deadline.

Next, the SWOT analysis is undertaken, and the objectives (especially the deadlines) are reviewed by the team in light of the results of that analysis. A suitable strategy is then agreed upon, and functional strategies are also developed. One approach which we have used in functional strategies is called "TART7" (a registered trade mark of David Petrie Associates). It stands for Task (the thing to be accomplished), Activities (the specific steps to be taken to accomplish it), Responsibility (the person or people who must ensure that it happens) and Timelines (start and end dates).

6.4 The Written Plan

Why write your plan down? A written plan serves as a constant reminder of the specific things you are going to do in pursuit of success for your venture. It provides a time table for completion of the various steps and a method of checking progress. It also helps you remember why you are in business and what you hope to achieve through your enterprise.

A written plan may also be used to secure equity financing from potential investors and partners, or debt financing from a bank or other lender. The fact that you have developed a written plan of action indicates to people that you have given considerable thought to your business and are serious about succeeding in it. Both investors and lenders find this reassuring. A written plan also gives them the opportunity to evaluate your chances for success; they may even suggest changes which could help you more.

6.4.1 Contents

Your written business plan should contain seven sections. These are:

< A description of the business. If you are using the plan for yourself only, this can be a brief outline of the products or services you will be providing and some information on how you intend to provide them. However, if you will be using the plan to attract financing, you will want to be much more detailed. It would be appropriate to include a description of the business's premises (even a plan view of them, or some photographs), a discussion of the products or services on offer, and some of their benefits (for retail outlets, you would limit this to product groups). Businesses which rely heavily on walk-in trade would be wise to include some information on the

neighbourhood in which they are located. Traffic counts for vehicles and pedestrians are good here. Also include information on the seasonality of your business's products or services.

< Mission, goals, objectives and overall strategy. Goals and objectives may be grouped in "families"; that is, list a goal and all of the supporting objectives together. You may also want to indicate the overlaps here. Finally, you will want to include your philosophy, both as a reminder to you (and your staff, if you choose) and as a valuable piece of information for possible investors. To support your chosen strategy, you may wish to include a summary of your SWOT analysis, as well.

< Human resources. Set out guidelines for the management of the business. You should include background information on all individuals who are important to the success of the firm, along with a brief description of their duties. Outline your staffing requirements and any training programs you plan to carry out. Include some information on your human resource management strategy.

< Finance. This section should list the sources and terms of any financing you already have (common equity does not normally have any terms, but "special shares" may), your overall financial strategy and projected income statements, balance sheets (if you choose), and cash flows for a two year period. Financial projections were discussed in detail in Chapter 3.

< Marketing. Summarize your research and provide information on your target group(s). List specific strategies you have developed for each area of your marketing plan and briefly outline the tactics for each, where that is appropriate.

< Production/Operations. Although this is an area we have not covered in great detail, it deserves inclusion in your business plan. Many businesses will want to provide workflow diagrams, and such things as inventory management policy (if appropriate). You may also want to give though to including information on required reports and general paperflow. This is relevant to all types of business and may save you from creating a paper monster.

< A five year operating plan. This section brings all the functional areas (human resources, finance, marketing and production/operations) together and discusses the timing of strategic implementation. It also provides the opportunity to integrate information on new product or service development, social responsibility activities

and other concerns which are not easily grouped with the other functions.

6.4.2 Revising the Plan

A business plan is only good if it is up to date. If you develop a plan today and never review it, you may as well have saved your time. Things may change in your customers, or some of your strategies and tactics may become obsolete. Your financial projections will certainly change as the business grows. You may even drift away from the plan and start to manage "by the seat of the pants". None of this is desirable.

You can avoid problems by periodically reviewing and revising your plan. We suggest the following schedule:

< *Monthly.* Review your cash flow projections and update them to reflect any changes which have taken place during the month. While you may want to look at every month for which you have done projections, you should concentrate on the coming six month period. This way, you can use your projections as budgets which indicate when you might need more money to help run your business.

< *Quarterly.* Review projected financial statements (income statements and, if you did them, balance sheets) to reflect the changes you have made to your cash flow projections.

Review your five year plan to see if you are keeping up with your timetable. Revise the timetable where needed, and re-assess any strategies you are having trouble implementing on time.

< *Annually.* Review all elements of the plan. Specifically, look for the following:

    < *Mission, goals, objectives and strategy.* Test your goals and objectives to see if they still reflect the realities of your situation. Is your overall corporate strategy still appropriate?

    < *Human resources*. Have you expanded your management organization, or added other key players? changed staff? initiated new training programs? switched management strategy? These changes should be reflected in this section.

< *Finance.* Update your projections so you are still running two years ahead of the present.

< *Marketing.* Evaluate your marketing program as discussed in section 2.1.4 and make necessary changes. Also examine the effect those changes will have on specific strategies and amend them where necessary.

< *Production/operations.* Are your production/operations facilities or needs expanding? Is your inventory policy still appropriate for you? What are your current and projected needs, and how must your operation change to accommodate them?

< *Five year plan.* Re-examine all the elements discussed above to see how they fit into the plan. Modify the plan to include any changed goals or objectives and their strategies. Change any outmoded tactics. Since year one of the plan is already behind you, you will need to expand on the activities you propose for subsequent years, and add a new year five.

7 CONCLUSION

As we finish this seminar series and manual, there are a few things we would like to remind you of.

First, business should be fun. It may be a lot of work, and, at least in the beginning, it may not pay too well. But it should be an enjoyable experience. In preparing both the seminar series and this manual, we have tried to convey this idea.

Next, part of business is management. Management is NOT just for General Motors. It is for all organizations of all sizes. We hope we have de-mystified the management process for you. Think of it as a two part exercise. Part one is solving problems, as we discussed in Chapter 1. Part two is trying to avoid having problems to solve. If you can understand and apply the material we have covered together, you will be well on your way to succeeding at Part two.

Finally, the secret to business is that there is no secret to success in business. The winners are those who know what they are doing and are motivated about doing it. The rest stand, at best, a fifty-fifty chance of winning.

So, have fun, manage your business, and be motivated enough to persevere until you succeed.

The balance of this section will be taken up with a discussion of business as a system within a system. This is of special interest to entrepreneurs who are facing the results of extremely rapid growth and are at a management "crossroads".

7.1 The Systems View

A system can be defined as two or more interrelated, interacting components. A business enterprise is a system made up of four major components:

- Human resources
- Finance
- Marketing
- Production/operations

Remember that everything you, as a business owner, do in marketing, for instance, affects human resources, finance and production. If you decide to double your advertising expenditure, you may find that you have also:

< put an extra demand on your financial resources, to pay for the increase. Where will the money come from?

< forced production to operate beyond its current capacity. They may either require a new shift/new people or additional machinery/equipment or facilities to accommodate the increased production caused by increased sales.

< caused your human resources people to hire either more production staff or more sales/service staff to handle the increased demand.

< put an additional drain on finance to come up with money for more facilities and people.

You can see, then, that a simple decision to increase advertising can cause several short term problems. Naturally, if you are successful in your efforts, these problems will not become long term because the long term benefits of your action will ultimately supply your cash needs and allow both production and human resources to adjust smoothly to the change.

So a business is a very delicate system. It is also a system within a system. Business operates within a system we call society. Society, for a business, is made up of four groups:

< *Government.* Often, government, through its laws and regulations is the voice of the rest of society. Occasionally, however, government loses touch with everyone else and some antiquated or outmoded laws result.

< *Customers.* Those wonderful people or organizations who buy the product or service you offer, thereby keeping you in business.

< *Competitors.* They often keep business people on their tows by trying, the best way they know how, to get some of your customers and market share.

< *People*. Whether or not they are customers, competitors or governors, people also have interests not directly related to business. These social interests affect you as a business person, however. They include product safety, environmental concerns and other local problems. More than ever in the world of the 1990's, people expect business to sit up and take notice of these issues and to do something about them. That is why we laid such stress on the idea of goals related to social demands and needs in our discussion in section 6.1.

In addition, you must contend with the economy, demographic factors in the population at large, technology, suppliers, and labour, whether unionized or not.

It is at this point that the successful entrepreneur must ask himself "How much of this do I want to deal with? How much of this *can* I deal with, and in how much depth?" On the answer to that question depends your future course of action. If you want to plunge in and feel confident that you can do so, the opportunities are there for the taking.

However, if you are hesitant about your desire and ability to deal with these larger issues in enough depth to maintain your success, you have some hard decisions to make.

Should you limit your growth to an area in which you feel comfortable? Perhaps you should halt growth all together. This is not unknown among people who do not want the hassle of running "too large" an organization.

Alternately, you may want to hire someone to help you manage your enterprise. Many entrepreneurs do this when things get too large for them to handle. They will either promote someone already with the firm who has the managerial talent they lack, or they will go outside and hire a professional manager.

How can you minimize the problems associated with growth? One very good way is to start delegating responsibility and authority as soon as you reasonably can. This will have you hands on experience at working with and through people. It will also give you a chance to start looking at the larger issues while you still have the ability to do so with some detachment. Finally, it will give you the opportunity to do some serious planning for the future: yours, and your enterprise's.

In a nut-shell, that is what this seminar series and manual have been about: planning and managing. As mentioned earlier, we think you should also have fun doing it, and that is why we have tried to make it both easy and enjoyable to pick up the fundamentals of decision making and some management tools. We think we have succeeded, and we now wish you success in your endeavors.

Good luck!