

instructor's manual^{nxlevel}®

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entrepreneur

On behalf of those involved in developing this program, we at the NxLevel® Training Network wish the program Instructors happy instructing!

Fifth Edition

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“Helping Entrepreneurs Reach the Next Level of Success...”

instructor's manual

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The History of the NxLevel® Training Network

We are pleased to welcome you to the network of community service providers who have adopted the NxLevel® Entrepreneurial Training Program. We hope you will agree that NxLevel® is the best and most affordable entrepreneurial training program on the market, and we believe you will appreciate the support services NxLevel® provides.

The NxLevel® Entrepreneurial Training Program was funded by a grant from the U S WEST Foundation to the University of Colorado at Denver. Initially, NxLevel® was marketed under the name of the Western Entrepreneurial Network (WEN), with partners located in the 14 western states that comprise U S WEST Communications' corporate territory. After beta-testing the NxLevel® materials in the spring of 1996, WEN received numerous inquiries about NxLevel® and began expanding nationally. In order to reflect the program's national scope, the name changed from WEN to the NxLevel® Education Association (NEA).

At the same time, NxLevel® received requests from participants, educators and State Coordinators for practical training materials that would cover the issues entrepreneurs face daily when starting or expanding a business. With this in mind, NxLevel® developed new course materials and curricula based on the collective expertise of educators and successful entrepreneurs. The goal was to produce easy to use, conveniently packaged training materials that met the stated needs of over 4,500 previous participants.

Today, NxLevel® is the world's largest and most effective entrepreneurial training network. Since 1994, over 160,000 students have participated in NxLevel® training, and some 5,000 people have been certified as NxLevel® instructors. Training has been implemented in 49 states, American Samoa, and Puerto Rico. At its current pace, NEA will teach over 20,000 new participants over the next two years. NxLevel is also used in many other countries around the world.

ECONOMIC IMPACT

The University of Calgary was commissioned to determine the economic impact of the NxLevel® courses. They found that the average existing business experienced a 32-percent increase in gross sales within one year of graduation, and created 1.3 new jobs. Graduates with smaller companies (annual gross sales less than \$200,000) experienced an even more dramatic success rate, with an average increase of over 200 percent in sales.

With regards to business start-ups, 40 percent of participants start a business within one year after completing the course. Another 20 percent continue to work on developing their business concept. When surveyed after three years, over 93 percent of the businesses were still in operation, whereas the national average is a mere 16.5 percent for the same time period. The survey also showed that the majority of the NxLevel participants use the business plan created in the course to obtain financing for their business.

NxLevel®'s goal has always been to build sustainable programs at the community level. Therefore, its training materials are designed to be affordable for both the training partner and the participant. Because the U S WEST Foundation agreed to underwrite the cost of these materials and donated NxLevel® copyright profits back into the program, the cost of the materials is substantially less than that of other programs.

GOAL OF THE NxLEVEL® TRAINING NETWORK

NxLevel®'s goal is to develop business-oriented training programs that help entrepreneurs to be better businesspeople, strengthen the entrepreneurial spirit in our communities, provide quality training materials at an affordable price to partner organizations and participants, and assist states and communities in implementing their training programs.

NxLevel® is the result of listening to the needs of business service providers in 49 states over the past 15 years. They said they wanted training programs that:

1. Provided basic business skills training, including preparing a business plan.
2. Provided practical guidance in bookkeeping, marketing, financial projections and negotiating with lenders.
3. Provided a standardized curriculum that was cost-effective, yet flexible and focused on the community level.

NxLevel®'s response was to develop training courses that met all of the above needs. The basic premise behind the courses is that success requires planning. Therefore, NxLevel® put a premium on teaching entrepreneurs better planning skills, from concept development to the actual preparation of a comprehensive business plan.

Unlike other education programs, NxLevel® addresses the special needs of the entrepreneur by providing a practical, hands-on, commonsense approach to small business development. As a customer-driven organization, NxLevel® has learned what people like about entrepreneurial training courses, and has incorporated the following features:

- Experienced business educators, with prominent business leaders as guest speakers for each teaching module
- Networking and learning opportunities with local business leaders and participants
- Comprehensive textbooks, workbooks, and resource guides
- One-on-one business counseling and support as needed
- A learning environment that promotes critical thinking and creative problem-solving

By combining education, counseling and networking, NxLevel® helps entrepreneurs reach the next level of success.

THE NxLEVEL® ENTREPRENEURIAL TRAINING PROGRAMS

The NxLevel® Entrepreneurial Training Programs were designed to train both potential and existing entrepreneurs. Although they were developed for the general business community, they can be customized to the needs of special populations, such as business owners in rural communities, displaced workers, women and minority entrepreneurs, and micro-enterprises.

Each entrepreneurial training program is a turnkey package that includes all training materials, syllabi, and books in addition to instructor and manager manuals.

NxLevel® for Business Start-Ups

This 10-session, 30-hour course is dedicated to developing a start-up business plan that will test the feasibility of a business idea and act as the blueprint for a start-up venture.

Participants are expected to learn the following:

- What it takes to be a successful entrepreneur
- How to develop and test their business concept
- How to select the best business entry option
- How to organize and manage their business
- How to research and market their business
- How to understand and get their financials in order
- How and where to get funding for their business
- How to determine the feasibility of their business concept
- Networking with other entrepreneurs

Each participant receives the following training materials:

- NxLevel® Guide for Business Start-Ups
- NxLevel® Business Start-ups Workbook
- NxLevel® Business Resource Guide

The 10-session, 30-hour course (3 hours per session) comprises the following sessions:

1. Are You Entrepreneurial Material?
2. Developing Your Business Concept
3. Business Start-up Options (1)
4. Business Start-up Options (2)
5. Business Fundamentals
6. Market Research & Analysis
7. Marketing Strategies
8. Understanding Budgets and Financials
9. Raising the Money
10. Getting Started and Managing the Future

NxLevel® for Entrepreneurs

This 12-session, 36-hour training program is designed to produce a comprehensive business plan that will guide business expansion decisions and activities.

Entrepreneurs will learn the following:

- How and when to start business planning
- How to organize and better manage their business
- How to identify opportunities and market their business
- How to understand and get the business's financials in order
- How and where to get funding for their business
- How to write a detailed business plan
- Networking with other entrepreneurs

Each participant receives the following training materials:

- NxLevel® Guide for Entrepreneurs
- NxLevel® Business Plan Workbook
- NxLevel® Business Resource Guide

The course consists of the following sessions:

1. Introduction: Overview and Entrepreneurship
2. Planning and Research: Entrepreneurial Essentials
3. Organizational Matters: Management and Legal Structure
4. Marketing: Analysis and Understanding
5. Marketing: Strategies, Tactics & Implementation
6. Financial Overview: Books, Records, and Controls
7. Managing Your Money: Financial Planning and Budgets
8. Managing Your Money: Developing and Using Cash Flow Projections
9. Managing Your Money: Understanding and Using Financial Statements
10. Financing Your Business: Sources of Money
11. Green Business Opportunities: Environmental Solutions
12. Your Business Future: Negotiating, Managing Growth, and Plan Completion

NxLevel® Youth Enterprise Academy

The NxLevel® Youth Enterprise Academy (NxLevel® YEA) can be configured as either a 5-day "boot camp" on youth entrepreneurship, an after-school course for developing youth businesses, or part of a high school curriculum. It comprises 13 teaching modules in a 39-hour course format designed for youth that want to start a business or to learn about the world of small business. It is designed to be flexible so that additional modules can be added or that more time can be spent on a specific subject. NxLevel® YEA is a skill-building course that exposes youth to the world of small business as an alternative, but viable career option. The training materials provide the knowledge and skills to test the feasibility of a business concept.

Participants are expected to learn the following:

- What it takes to be a successful entrepreneur
- How to identify, develop and test their business concept
- How to select the best business entry option
- How to organize and manage their business
- How to research and market their business
- How to understand and get their financials in order
- How and where to get funding for their business
- How to determine the feasibility of their business concept
- The importance of networking with other entrepreneurs

Each participant receives the following training material:

- "Get the Buzz on Biz!" NxLevel® Guide for Enterprising Youth

The 13-module, 39- to 40-hour class (approx. 3 hours per module) comprises these modules:

1. Class Orientation
2. Introduction to Entrepreneurship
3. Developing Your Business Concept
4. Using the Internet
5. Teamwork and Community Responsibility
6. Starting a Business
7. Negotiating and Dealmaking
8. Testing Your Idea: Market Research and Analysis
9. Getting to the Market: Marketing Strategies and Tactics
10. Business Fundamentals
11. Understanding Budgets & Financials
12. Raising the Money
13. Getting Started and Managing the Future

NxLevel® for Agricultural Entrepreneurs

This 10-module, 30- to 36-hour course is aimed individuals who have started or are thinking about starting an agricultural venture that is not tied to large scale, commodity-style production. The materials are specifically designed for the individual who is searching for innovative ideas and enhanced marketing opportunities. It is a 10-session course delivered over an 11-week period. NxLevel® teamed up with the University of Nebraska EDGE training program to develop the curriculum and training materials. The project was funded by the US Department of Agriculture's Sustainable Agriculture Research and Education (SARE) program. The material for the text is based on the work of more than 20 authors.

Participants are expected to learn the following:

- What it takes to be a successful entrepreneur
- How to develop and test their business concept
- How to organize and manage their business
- How to research and market their business
- How to understand and get their financials in order
- How and where to get funding for their business
- How to determine the feasibility of their business concept
- Networking with other entrepreneurs

Each participant receives the following training material:

- "Tilling the Soil of Opportunity..." NxLevel® Guide for Agricultural Entrepreneurs

The 10-module, 30-36 hour course (approx. 3 hours per module) includes the following sessions:

1. Take Stock of Your Resources
2. Basic Equipment Required: Planning and Research
3. The Legal Terrain
4. Manage from the Ground Up
5. Plant It, Grow It, MARKET It!
6. Reap the Benefits—Marketing Strategies
7. Get Your Budgets In Line
8. Analyze THESE: Cash Flow and Financial Statements
9. Cultivate Your Money Resources
10. Harvest Your Future

NxLevel® for Micro-Entrepreneurs

The goal of the course is to help participants achieve self-sufficiency through self-employment. This 15-session course can be taught in a variety of configurations to achieve the development objectives of the training organization.

Participants are expected to learn the following:

- What it takes to be a successful entrepreneur
- How to develop and test their business concept
- How to select the best business entry option
- How to organize and manage their business
- How to research and market their business
- How to understand and get their financials in order
- How and where to get funding for their business
- How to determine the feasibility of their business concept
- Networking with other entrepreneurs

Each participant receives the following training materials:

- NxLevel® Guide for Micro-Entrepreneurs

The 15-session, 45-50 hour course (approx. 3 hours per session) comprises these sessions:

1. Keys to Your Business Success—Unlock Your Future
2. Time and Money—What We Never Have Enough of...
3. Are You A Business Owner?—Optimism, Dedication and Enthusiasm!
4. Will Your Idea Work?—Assessing Your Business Idea
5. Planning, Research and Your Industry—Knowing Where You're Going...
6. Business Ownership—Staying Out of Trouble
7. Becoming a Priority Manager—First Things First!
8. Marketing Research and Analysis—Chart It Before You Start It!
9. Marketing Strategies—Target Smart!

10. More Marketing Strategies—Spice It Up!
11. How To Win Customers and Grow Your Business—Attitude is Everything!
12. Where's the Cash?—Right on the Money
13. Managing the Money—Budget...Don't Fudge It!
14. Financial Tips, Tools and Secrets—Bank on It!
15. Bringing It All Together!—And Away You Go!

NxLevel® Hot Topics

NxLevel® is developing mini-courses that will serve students with topical material. Normally configured in a one-session, 3- to 4-hour classes, these courses provide entrepreneurs with a quick study on important topics.

Courses currently available include:

Going Green: NxLevel® Guide to Environmental Solutions is a one-session, 4-hour class designed to aid entrepreneurs in “green” decision making. This class focuses on providing practical, business-friendly knowledge and competence in environmental problems and solutions. Students develop a NxLevel® Green Action Plan that guides their efforts in transforming their companies into environmentally friendly companies.

Session outline:

- Why Go Green?
- Is It Feasible?
- Saving Money, Saving Resources
- Pollution Prevention
- Product Design And Redesign
- Green Branding And Marketing
- Exporting Green Products
- Finding Money, Getting Help
- Staying Green
- Your NxLevel Green Action Plan

NxLevel® Signage for Entrepreneurs can be used as a stand-alone session or added to an existing class as an extra session. This supplemental course introduces the ABCs of signage (attracting new customers, branding the business, and creating impulse sales) and relates these issues to the applicable sections of the business plan. This supplement also has an instructors' manual available. This supplement was created by NxLevel® and a grant from Signtronix.

Session outline:

- The Value of Signage
- The Effectiveness of Signage
- Signage, Laws, and Community Standards
- Elements of Design
- Working With Designers and Manufacturers

Money Matters: NxLevel® Guide to Money Management is a one-session, 4-hour class designed to aid entrepreneurs in solvent financial decision-making. This class focuses on providing practical solutions to money management. Students develop a NxLevel® Action Plan that guides their efforts in transforming their companies by setting financial goals and addressing credit challenges.

Session outline:

- Household Budgeting
- Setting Financial Goals
- Personal Financial Statement
- Understanding Credit
- Debt—Is It For You?
- Linking Personal and Business Finances
- Borrowing For Your Business
- The Lender Relationship
- Take The First Step

TRAINING MATERIALS

The following is a brief description of the NxLevel® training materials. Please note that the Workbooks and Resource Guide are designed to be incorporated into a 3-ring binder that makes them user friendly to the trainee. All materials are beta-tested before being marketed nationally. Additionally, all training materials are re-edited periodically based on the feedback of participants and instructors.

NxLevel® Guide for Business Start-Ups. This text provides a comprehensive overview of entrepreneurship, with emphasis on concept development and entry strategies. Used in conjunction with the **Business Start-ups Workbook**.

NxLevel® Business Start-Ups Workbook. This workbook is a step-by-step guide to developing an abbreviated business plan to test the feasibility of a business concept.

NxLevel® Guide for Entrepreneurs. This book is a comprehensive overview of the art of business and how to improve business operations from marketing to financial controls. Used in conjunction with the **Business Plan Workbook**.

NxLevel® Business Plan Workbook. This workbook takes the participant through a step-by-step planning process to develop a comprehensive business plan.

Business Plan Basics: NxLevel® Guide for Micro-Entrepreneurs. This text explains how to use self-employment as the means of becoming self-sufficient.

NxLevel® Business Resource Guide. This useful text includes a list of business resources for research, financing or assistance, as well as legal forms and samples of practical business letters, library resource information and additional reading references.

Get the Buzz on Biz: NxLevel® Guide for Enterprising Youth. This text provides a comprehensive overview of business concept development and entry strategies for youth interested in starting a small business. It is designed as a text, workbook and resource guide.

Tilling the Soil of Opportunity: NxLevel® Guide for Agricultural Entrepreneurs. This text provides a comprehensive overview of how to start or expand an agriculture-based operation producing non-commodity products.

NxLevel® Guide to Signage for Entrepreneurs. This text explains the importance of well-designed and properly positioned signage, and describes the legal and technical aspects of designing, manufacturing, and siting effective signs. **Going Green: NxLevel® Guide to Green Solutions.** This text takes a comprehensive look at current green business options. It teaches participants to conduct feasibility studies, and create an action plan that will help them reach appropriate, affordable, and attainable goals.

Money Matters: NxLevel® Guide to Money Management. This text explains the basics of money management, from household budgeting, to understanding credit and lending relationships, to borrowing money to start or grow a business.

Business Plan Library. Comprises sample business plans that have been reviewed and “sanitized” (proprietary information removed) and provided in universal formats.

INSTRUCTOR MATERIALS

All training programs include an Instructor’s Manual that comprises curricula, overheads, and session by session instructor notes. These manuals are based on the feedback of participants and instructors. Ongoing support is provided by NxLevel’s website (www.nxlevel.org).

IMPROVEMENT OF MATERIALS

NxLevel® is a customer-driven organization that continually seeks input on how to improve its training materials and curricula. We encourage users to provide constructive critique. We plan to re-edit every two years to keep the materials fresh and applicable to the business climate.

PROGRAM / ORGANIZATIONAL DEVELOPMENT SUPPORT

NxLevel® has a small, dedicated staff with expertise that supports NxLevel’s mission. Staff will assist each state or community in evaluating the overall performance and effectiveness of its NxLevel® class, and will help the sponsoring coalition correct any identified problems. Local administrators will also be trained on program evaluation and problem solving.

While it is more cost-effective to assist statewide efforts, our staff can help individual communities develop appropriate training programs by offering the following assistance:

- Staff will meet with interested officials and leaders to explain the program and assist in structuring a community-based sponsoring mechanism to implement NxLevel®.
- Staff will assist in the development of a workplan to obtain funding.
- If a state or community decides to use NxLevel®, staff will provide training on program development, management and implementation. Key areas of developing and sustaining NxLevel® training are addressed in a training workshop.
- Staff will assist State Coordinators or local managers in solidifying a sponsoring coalition and funding and the recruitment and training of qualified Instructors. Each Instructor will receive a detailed instructor’s guide. Training for Instructors is a one and a half day workshop customized to the types of NxLevel® courses to be offered.
- NxLevel® will assist states and communities in marketing and promoting NxLevel® by providing a camera-ready copy or computer disk of all marketing and promotional material. All materials are downloadable from NxLevel’s home page.

- Staff will support each state with follow-up consultations on program marketing, administration and implementation as needed. NxLevel® holds an annual meeting of State Coordinators to discuss problems and share lessons learned. States are encouraged to hold their own annual meeting of sponsors and Instructors as a means of sharing information.

ORDERING TRAINING MATERIALS

One text should be ordered for each participant. The cost of the materials does not include shipping. Shipping is dependent on when the training materials are needed. In most cases, NxLevel® generally ships via FedEx. Based on past experience, most training sites order materials about a week before the start of a class. The Order Form can be downloaded at www.nxlevel.org. NxLevel® expects payment within 30 days upon receipt of invoice.

RETURN AND REFUND POLICY

NxLevel® has a 30-day return policy if the training materials are unused and in as-new condition. Organizations can return 10% of books ordered within 30 days by paying shipping to return the books. Books over 10% of the original order and books returned after 30 days will be charged a restocking fee of \$10 per book. If the organization has already paid for the training materials, we will issue a refund check or credit depending on the wishes of the organization. Refunds take about 3 weeks to process. Return authorization is required prior to returning books.

FUNDRAISING AND SPONSORSHIP

The NxLevel Educational Foundation is a nonprofit organization. As such, it is somewhat dependent on outside funding in order to carry out its mission. Most revenues are generated through book sales. However, in order to make sure the classes are affordable for all, the cost of the books and teaching materials remain well below market prices. Naturally, there are also costs associated with the creation of the intellectual property. Accordingly, NxLevel® accepts donations and/or sponsorship from individuals, corporations and other foundations who find our mission and extraordinary results a compelling reason to give.

THE AUTHORS OF NxLEVEL®

Preparing the NxLevel® textbooks, workbooks and supportive instructor materials was a challenge, and to meet that challenge in the best possible way, NxLevel® asked several individuals to help. Over twenty-five people have helped write NxLevel®'s five training programs. The authors have a combined 300 years in business, making the sharing of their experiences just that much more beneficial. The authors include professional educators and entrepreneurs that have both educational and practical experience.

- NxLevel® holds an annual meeting of State Coordinators to discuss problems and share lessons learned. States are encouraged to hold their own annual meeting of sponsors and Instructors as a means of sharing information.
- NxLevel® has established a home page on the Internet to encourage electronic marketing and communication. The web site will include a master calendar of each state's training schedule, business success stories and other useful information on NxLevel® to support the implementation of a quality, cost-effective program.
- NxLevel® will continue to provide applicable training materials to participants and Instructors alike. Our goal is to continually improve NxLevel®, while keeping training materials as affordable as possible.

ORDERING OF TRAINING MATERIALS

NxLevel®'s goal is to provide quality and affordable training materials. One text should be ordered for each participant. The cost of the materials does not include shipping. Shipping is dependent on when the training materials are needed. In most cases, NxLevel® generally ships via Federal Express. Based on past experience, most training sites order materials about a week before the start of a class. The Order Form can be downloaded at www.nxlevel.org. NxLevel® expects payment within 30 days upon receipt of invoice. The cost is as follows:

RETURN AND REFUND POLICY

NxLevel® has a 30-day return policy if the training material are unused and in re-salable condition. Organizations can return 10% of books ordered within 30 days by paying shipping to return the books. Any books over 10% of the original order or books returned after 30 days will be charged a \$10/book restocking fee. If the organization has already paid for the training materials, we will either issue a refund check or credit depending on the wishes of the organization. Refund checks take about 3 weeks to process. Proper return authorization is required prior to returning books.

How To Use The NxLevel® Instructors' Manual

PURPOSE OF THE INSTRUCTORS' MANUAL

Your NxLevel® Instructors' Manual is designed to facilitate the teaching process by providing a comprehensive set of materials for **each session** of the NxLevel® Entrepreneur Program. The Manual makes teaching this course easier for first-time instructors and seasoned NxLevel® trainers, by coordinating in-class activities with workbook and homework assignments. This convenient manual allows you to keep all materials together in one binder, while documenting a coordinated teaching effort designed specifically for certified NxLevel® trainers.

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Tab D	Games, Brain Teasers, and Food For Thought
Tabs 1-12	Teaching Manual Outlines for Each of the Twelve Sessions
	Participant Outline
	Instructor Outline
	Additional Instructor Notes
	Overheads and Handouts for the Session

Participant Outline

Each participant in the NxLevel® class will receive four tabbed sections that can be inserted into a three-ring binder: the Session Outlines for the course, the NxLevel® Business Plan Workbook, the NxLevel® Business Resource Guide, and Class Handouts.

Included in the Session Outlines tab is a one-page outline for each session. Your Instructors' Manual has the same outline, so you can see exactly what the participants are looking at, and can provide the additional information they need to note as the class progresses.

Instructor Outline

The instructor information in each session tab begins with a one-page Instructor Outline of that particular session. The Instructor Outline has the same main agenda information as the Participant Outline, but serves as a more detailed topic and time guide for that class session. Standard class segments are described below, with suggestions for maximizing their usage and effectiveness. Each Participant Outline and Instructor Outline starts with a set of learning objectives. These objectives should serve as minimum learning/teaching goals for the session.

Class Openers

Recognizing that many NxLevel® classes are held immediately following a work day, it is recommended that each class start with something to mentally break away from the work day. The first ten minutes of class can be used to review articles of interest that are brought to class by participants or the instructor, quick reports by participants on "best news" or "worst news" relating to their entrepreneurial week, brain teasers (samples provided in Tab D), or other fun, creative activities that will help participants leave their work day behind and settle into the NxLevel® class environment. A quick classroom activity that ties into the topics for the session can also be used. Some of the sessions have suggestions in the Additional Instructor Notes.

Instructor Topics

Sessions generally begin with fifty (50) minutes of instructor-facilitated discussion regarding specific topics pertinent to that session. The Instructor Outline provides an abbreviated guide to this “lecture” section, showing main topics and important subheadings. More detailed information is found in the subsequent Additional Instructor Notes.



Please Note: Instructors are expected to read the chapters in the NxLevelL[®] Guide relating to each session. Knowing what the students are reading will prepare instructors for specific questions that may arise during class, as well as refreshing or enhancing instructor knowledge on the session topics.

Guest Speakers

Networking with members of the business and professional community is an added benefit for the NxLevelL[®] participant. Most sessions identify a suggested category of guest speakers to be invited to speak and/or answer questions for a thirty (30) minute segment of class. Subsequent Additional Instructor Notes provide suggestions for preparing questions for your guest speakers.

Speakers should be contacted well in advance of class. At that time, the Instructor should explain the purpose of NxLevelL[®] training, the topics that will be covered during the class they are attending, their allotted time, and the questions you would like them to address. A standard confirming letter specifying the date, time, place, number of participants in class (in case the speaker wants to bring handouts), and the suggested questions to be addressed is an excellent way to solidify the speaker commitment. Offering to call and confirm the speaking arrangements the day prior to the class is a courtesy often welcomed by busy professionals.

Break

Three hours is a long time to concentrate, particularly at the end of an already full work day. Many participants will not even have a chance to eat prior to attending class. It is suggested that the thirty (30) minute break be used to provide participant refreshments and incorporate an informal networking activity.

Refreshments can be provided by the instructor or the sponsoring organization. Alternatively, the participants can be asked to volunteer to provide refreshments for an assigned session. Once the session dates are determined, get a commitment for “refreshment duty” for each session, and either post a list or remind the following week’s refreshment provider at the end of class.

Networking Activities can be as simple as posing a specific question to be discussed among the participants during the break, or as formal as assigning a specific task to be accomplished during the last fifteen (15) minutes of the break. The purpose of a networking activity during the break is to keep the participants’ attention from wandering too far out of class relevance.



Note: Instructors should establish that participants are expected to stay on premise during the break. The networking activity helps to deter participants from leaving during the break.

Work Hour

The last sixty (60) minutes of class is designed to allow for small discussion groups (more networking encouragement), homework review, and workbook preview. The Additional Instructor Notes provide the details of suggested activities.

The Work Hour is the “production” time of the class, allowing participants to work on segments of their business plans, answer workbook questions, or focus on problem-solving. Participants who indicate they consistently cannot stay for this segment of class should be encouraged to take the class at a time when their schedule allows for full participation.

Assignment for the Next Session

Each session should be concluded by reviewing the homework assignment for the following session. The assignment section provides detailed information on chapters to be read from the NxLevel® Guide (**TEXT**), what pages to complete in the Workbook, and what written assignment (generally referring to a specific segment of the business plan) should be prepared to hand in during the following session. A line is provided at the top of both the Participant Outline and Instructor Outline to note what written assignment is due for that session.



Note: Participant Outlines provide a “due” blank at the top of each session sheet in which to print the assignment for the next session. Instructors need to remind participants to fill in that blank. (Instructor Outlines have the “due” information pre-printed on the blank line.)

Additional Instructor Notes

The Additional Instructor Notes provide detailed information and suggestions about the following main teaching headings:

- Instructor Lecture Topics
- Guest Speakers
- Work Hour Suggestions
- Overheads (OHD) and Handouts Available for the Session
- Suggested Handouts and Supplemental Materials
- Instructor Notes

Instructor Lecture Topics

Instructors are encouraged to highlight key topics from the reading material, and provide additional meaning and understanding by discussing “real life” experiences and related information.

NxLevel® assumes that adult learners can and will do some reading, and that instructors should not treat the course as an academic experience that simply reviews the text material in a lecture segment. You have been chosen to be a NxLevel® instructor based on your business experience as an entrepreneur, and should plan to supplement the text information and expand the topics as appropriate. There is a fine line, however, between meaningfully expanding the material and straying away from the materials entirely. Please use the lecture notes as your main guide, customizing as appropriate for your particular class.



Note: Enhancing the class with personal experiences brings real life to the classroom. However, spending an excessive amount of class time on “war stories” is discouraged.

The notes on the lecture topics are detailed and will provide an excellent guide to the topics. Instructors are again reminded to read the text chapters, to make sure the interpretation of the notes is in line with the printed materials being read by the participants.



Note: The Instructor Notes in each session cover a wide variety of topics which are taken from each chapter in the **TEXT**. As you review each session, be aware that there may be much more material than you can cover in a 3-hour class. We have done this to allow you some latitude in selecting the topics that are most relevant to students in any given class.

Guest Speakers

Specific suggested questions for the recommended guest speakers are outlined in this section, making your job of contacting and informing the speakers of the content of the session and their expected role easier. While the recommendations in this section have proven effective, feel free to customize to fit the needs of your class. Participants can also be asked to develop questions for the upcoming guest speaker at the end of the prior class session.

Work Hour Suggestions

The last hour of class can be very productive and informative if used correctly. Instructors will find a variety of activities suggested, including small group discussions and specific focus activities designed to get the participants to think creatively, and network among themselves.

Homework from the prior session can be reviewed and discussed, highlighting specific examples of business plan sections written. The primary function of this brief homework review is to address any questions and difficulties relating to the business plan section completed for the session. Some instructors might choose to review the homework at the start of class. Either way, remind participants (and yourself) that writing the business plan is a process that will cause sections to change and evolve as more information is gathered.

The **Workbook Preview** allows instructors to clarify the workbook assignment, and provides additional discussion material for the Work Hour. Working through some of the workbook material in class is an effective tool for focusing the participant on the assignment, and tends to clarify questions before they arise.

In some cases, the instructor may choose to focus on completing the workbook worksheets in class, allowing the participants to concentrate on writing the business plan section as their written homework assignment. The key to the Work Hour segment is to get the participant to actually do the homework, or be prepared to accomplish a written assignment.

Overheads and Handouts Available for the Session

Overheads and Handouts are referenced by their number in the instructor notes (**OHD X-X** or **OHD/Handout X-X**) and are listed sequentially in this section. Instructors have the option of using some, all, or none of the overheads, and can also turn overheads into handouts.

We recommend that a variety of visual materials be used, so consider using at least some of the overheads during some of the sessions. Overheads are also available as a Microsoft PowerPoint presentation on the NxLevel Website (www.nxlevel.org).

Suggested Handouts and Supplemental Materials

Participants should be encouraged to read, seek additional information, and be aware of their market and their industry. Instructors can use supplemental materials to show that there is a vast array of material available, and serve as a role model by continuing to bring interesting materials to class. Suggestions are listed for the categories of material relevant to the class session.

Instructor Notes

As you teach the NxLevel® classes, you will want to keep notes on the actual supplemental materials used, any customizing you have done with a particular session, and general reminders for in-class activities. Sections have been designed to remind you to write it down, which will make teaching future NxLevel® classes that much easier.

Recognizing Your Audience

Recognizing the needs of adult learners may help you to facilitate NxLevel® training sessions. Remember that people have different learning styles, and that adult learners have different expectations and preferences than younger students. During your NxLevel® training certification, you will receive several handouts relating to specific learning styles and adult learner preferences and expectations. Spend some time planning a variety of visual and printed materials that will tap into the various learning styles identified. Remember: Not all participants will learn the same way you do, so even though use of a particular teaching aid may not be your favorite, it may enhance the learning experience for your participants.

Participants in NxLevel® training courses are looking for outcomes that will affect their lives. Theory alone will not provide the kind of learning experience desired in a business training course of this quality. Keep your sessions lively, interesting, directed and attached to the participants' real life needs.

Suggestions on Customizing

Every group of participants will require that you do some customizing of pace, session scheduling and material adjustment. The following suggestions provide ideas based on common challenges.

The combined experience level class

Some locales choose to only offer one of the NxLevel® courses, and combine start-up and existing entrepreneurs in the same class. This can be effective if the class is appropriately customized, which includes encouraging the more experienced entrepreneurs to actively share their experiences and serve as a “mentor base” for start-up entrepreneurs.

Care should be taken to balance the amount of discussion focusing on start-up issues, with consideration given to individually meeting with start-ups outside of class to address specific concerns. Offer all class members the opportunity to meet with you once or twice individually during the 12-session course. You may want to offer a 2-session prerequisite training for start-up participants before they enter the regular Entrepreneur Course. The Instructor Training Director will go over several options for preparing start-up participants for the combined class during your certification training.

12-week course presented over 15 weeks

This allows for appropriate breaks for preparation of the marketing and financial information. It is suggested that one week be skipped or added after Session 5, to allow participants to actually do their market research and work on their marketing strategies and tactics. A second one-week break or additional session may be appropriate after Session 8 or 9 to allow participants to develop some of their financial information. A third option is to break after Session 11, to allow students to prepare their completed plan to submit during the last session.

Shortening or lengthening the overall course

This entrepreneur training is packed with useful information, and is designed to have participants actually produce a business plan. Your needs may dictate that you shorten or lengthen the overall course, depending on the skill level of participants, your own program's time constraints, etc.

If your group of participants appears to need more time to fully complete the course, it is easily lengthening by taking two class sessions to cover topics currently presented in one (Example: spread Session 8—Managing Your Money: Developing and Using Cash Flow Projections over two sessions.) Be somewhat sensitive to the group needs, but recognize that some sense of urgency to move forward may keep the class from bogging down.

If you feel compelled to shorten the class, it is highly recommended that you completely review all the sessions and topics before deciding your specific course of action. Your decision to eliminate a session or set of topics should be based on the experience level of your class.

We have found, however, that even experienced entrepreneurs often don't really understand topics that seem “basic,” so be cautious when deciding what to eliminate. If the suggested 15-week presentation time seems too long, consider presenting the 12 sessions consecutively, with no break or additional weeks, rather than eliminating sessions completely.

Additional Optional Sessions

If significant interest arises in a topic that is not focused on in class, instructors have the option of scheduling additional short sessions (one to two hours) to focus on a customized topic. Guest presenters may be invited to conduct the optional session. Optional session examples might include:

- Accounting packages for small business (hands-on demonstrations)
- Computers and technology (many entrepreneurs are not computer literate)
- Advertising and the media (detailed seminar presented by a media specialist)
- Website development, online marketing, e-commerce, social networking media
- Green and sustainable business practices, green marketing techniques

Summary

This manual has been designed with you, the instructor, in mind. Suggestions are always welcome for further enhancements, additional materials you have chosen, expanded teaching methodologies, etc. As the NxLevel® program keeps pace with the changing business environment, we encourage you to submit suggestions to help develop future instructor tools to keep pace with the ever increasing demands on the instructor's information requirements.

FOR MORE INFORMATION, SUGGESTIONS, AND COMMENTS PLEASE CONTACT US:

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www.nxlevel.org

Welcome to the **NxLevel®** of your instructor success...

Program Reporting and Evaluation Requirements

INTRODUCTION

As with any program, evaluation is a key component in determining success or failure and providing the framework to undertake needed changes. Similarly, all funders require a program evaluation to determine whether or not they are getting value for their investment. In general, the program evaluation is comprised of four key reports:

- NxLevel® Course Report
- Training Cycle Progress Report
- Annual Performance Report
- Participant Follow-up Report

While these reports are not required by the NxLevel® Education Association they can be extremely beneficial for organizations using NxLevel® courses. The evaluations from participants and prepared reports can give many insights on the success of the class and effectiveness of the instructor and guest speakers. Results from these reports can also be used to solicit funding or sponsorship for future courses. Of primary interest to potential funding partners are the following questions:

- How many people have participated in, and successfully graduated from, the program?
- Did communities or participants find value in the program?
- Did participants actually start or expand a business; if not, why not?
- Did participation in the program change business operations? How?
- Are participants still in business after one year?
- Are there characteristics of participants that increase the value of the program?
- Are there other direct funders?
- Is there other in-kind program support from states and communities?
- Is there priority lending for program participants?
- What is the overall program leverage, i.e., the value of the Foundation's investment?
- Are programs moving toward self-sufficiency? Have efforts been made to generate program income?
- Are participants enrolling in other, more advanced training courses?
- Are state and/or communities sharing information or lessons learned on how to implement a successful program?

The following are NxLevel®'s suggested reporting and evaluation procedures. All are based on previous experience and NxLevel®'s desire to simplify the amount of paperwork involved in tracking the success of the program.

REPORTING SUGGESTIONS

Annual Performance Report Outline

- A. Description of Statewide Coalition**—Who is involved? How does the Coalition work and make decisions?
- B. Fund Raising Efforts**—Description of fund raising efforts and sources of funds. Are the funds reaching program goals?
- C. Annual Goals/Objectives and Performance**—Explanation of the year's goals/objectives and information on goal attainment. This section should be a summary to the NxLevel® Training Cycle Report. The minimum information should include:
- Number of training programs by type and community
 - Number of local sponsors by type and amount of cash and in-kind contributions
 - Number of participants by site (participants started and successful completion)
 - Percent of graduating students
 - Number Program Managers and Instructors trained
 - Brief description of participant's evaluation or rating of the training courses
 - Brief description of attendees' follow-up evaluation information
 - Number of jobs created
 - Percent increase in sales/gross income
- D. Best Practices/Problems**—Description of any problems encountered and modifications undertaken. Or a description of success stories that could be shared with other states/communities.
- E. Annual Budget/Expenditures**—Brief description of expenditures and revenues by major categories. The key is to have the ability to determine cost per training site and statewide administration. Determine cost per participant and include any "in-kind" contributions.
- G. Next Year Workplan**—Brief description of program areas that are different from original workplan, including:
- Goals/objectives to measure performance
 - Itemized budget

In addition to the above, it could be helpful to prepare an interim report after each training cycle. Most states or communities offer the program in the Spring and/or Fall. The following report formats should be used in developing the training cycle report. The report is compiled from information gathered by administering the Registration Form and Course Evaluation. The NxLevel® Course Reports should be developed by the Program Manager for submission to the State Administrator who, in turn, compiles the information for submittal to NxLevel® or other interested organizations. The report also provides a good reason for the State Coalition to meet and discuss successes or failures while planning for the next training cycle.

A copy of the report format is at the end of this session. Each state has the option to develop its own format as long as the reports contain the following information:

- Profile of class participants
- Profile of business ideas or existing businesses represented in the class
- Information on course expectations by participants
- Course evaluation information
- Information about the participants' futures with regard to starting or expanding their ventures

PROGRAM EVALUATION

Program evaluation is in many ways everyone's responsibility. For many, evaluation is a necessary evil, undertaken reluctantly. It is, however, in the best interest of all involved in NxLevel® to collectively improve the performance of the program. All funding partners will require that the program be evaluated and reports be prepared.

There are three general approaches to evaluation. The procedures outlined below attempt to determine the relative increase in knowledge and ability that stems from the training. This involves a determination of the value of the content that has been transmitted to the participants. The second approach is to look at the activity levels of the group before and after training and over time. While other external events may impact the attainment of training objectives, some real measures of success can be attributable to the training. The third approach is the more general evaluative technique of observing the training and describing what took place. The question arises of whether or not the training is meeting an acceptable level of completion. Lastly, many funding partners are concerned with the "bang for the buck" approach to evaluation. Is the program being run in a cost-effective manner? The two key factors of the NxLevel® programs that will be evaluated include:

1. The results or impact of the training on a business or individual over time
2. The quality of instruction and course

Evaluation instruments have been developed to determine the results and performance of the program and are as follows:

Registration Form

The Registration Form will only be used to provide information on the type of people or businesses interested in NxLevel® and how registrants heard about the program. The key is to have the ability to determine the usefulness of marketing efforts. The form may also be used to develop a mailing list for other training programs and provide a "quick" sense of how many people are interested in the program versus how many actually participate. The Registration Form has been design to collect the following information:

1. Brief profile of the person and/or business interested in NxLevel®
2. Existing or potential type of business, product or service offered
3. Size of the business
4. How person heard about the program

Training sites may adopt other methods for gathering applications. Some communities have used a post card registration process or other method. If this is the case, NxLevelL[®] suggests that all participants fill out the Registration Form either before the course starts or during the first session of each course. The form will provide the base information for developing a profile of the start-ups or existing businesses comprising the essential data base for “before and after” tracking and evaluation. NxLevelL[®] has tried every effort to keep the registration process as brief as possible while collecting the necessary information for developing a longitudinal study process on the impact of the training.

Training Component Evaluation

As an option, NxLevelL[®] has develop a 3x5 card evaluation tool that will allow Program Managers the opportunity to evaluate the relevancy and usefulness of each training session, guest speakers or any part of a specific training session. The 3x5 cards should be distributed and collected at the end of each training session. If the Program Manager opts not to use the 3x5 cards for evaluating a training component, the Instructor should debrief the class after every Guest Speaker, Panel, etc. Each program needs to determine what is working in the course.

Any problematic information should be forwarded to the State Administrator for consideration. If the information can be compiled regionally, this will allow NxLevelL[®] the opportunity to make the necessary changes to improve the overall quality of the program.

Instructor Evaluation Procedures

One of the key responsibilities of the Program Manager is to evaluate the effectiveness of the Instructor. NxLevelL[®] is an Instructor-driven program where he/she can make the difference in success or failure. This is especially true for a newly trained Instructor who is teaching his or her first class. While the Course Evaluation Form will provide information after the course has been completed, the purpose of the following procedure is to provide feedback on how well the Instructor is doing in a particular class. A number of methods can be used, but feedback needs to be obtained from the participants.

Many Program Managers attend each session and undertake their own evaluation through observation, but this is only one view of the class. From NxLevelL[®]s experience, the participants in this type of training are not shy. If participants have problems with an Instructor, are served a bad meal, have a bad Guest Speaker, etc., they will let the Program Manager know very quickly and vocally.

In order to decrease instructional problems, NxLevelL[®] suggests that the Program Manager talk to a sample of course participants either after each session or by telephone to determine the acceptance level of the Instructor and/or the course itself. Many training sites have hired graduate students to monitor each course session or undertake the telephone survey. Some have given a scholarship to a student or person in return for participation as the course evaluator. Regardless of the method, the Program Manager or evaluator should work from a printed sheet of questions in order to maintain consistency in the evaluation format. Some suggested questions to ask if a telephone review is undertaken are as follows:

1. In your opinion, how would you rate the course thus far? Is it meeting your needs or expectations? (1 to 5 scale, with 5 being the highest rating.) Rating _____
2. In your opinion, how would rate the quality of your instructor's teaching? (1 to 5 scale, with 5 being the highest rating.) Rating _____

- Is he/she covering the material satisfactorily? Yes ____ No ____
 - Is his/her teaching style effective? Yes ____ No ____
3. If you were asked to improve the course, what changes would recommend to make the course better meet your needs and expectations?
 4. How do you like the structure of the course, i.e., instructor topics, guest speaker, break, work hour, etc.? Would you recommend any changes in the format?
 5. How would you rate the NxLevel® reading materials?
Acceptable ____ Unacceptable ____
 6. What are your feeling about the homework assignments? Explain your answer.
Too much ____ Just Enough ____ Not Enough ____

It is recommended that the Program Manager “spot check” the Instructor at least three times during the course. The first should occur no later than Session 3 in order to help the Instructor correct any problems early-on.

Course Evaluation Form

The form can either be administered at the final training session or as part of a follow-up mailing inviting participants to the graduation ceremony. In general, the survey rates the overall quality and relevancy of the course as well as the value of specific modules comprising the course. Every effort should be made to obtain a 100% return. Some training sites have required a returned Course Evaluation before issuing a graduation certificate. In general, the Course Evaluation Form is designed to obtain feedback on the following:

1. The performance of the Program Manager and Instructor responsible for implementing the course
2. The quality and usefulness of the course as well as the degree to which participants were satisfied with the course
3. The acceptability of the training facility or site
4. Interest in additional, more advanced training sessions
5. Feedback on how to improve the course and/or training materials
6. Any changes that occurred to an individual or business while attending the course

The results should be compiled as part of the NxLevel® Progress Report that is submitted to the State Administrator. It should be submitted within a month after the course is completed. The State Administrator may choose to submit a Performance Report to NxLevel® after each training cycle, Spring and Fall. NxLevel® uses this information to generate support for the program regionally and nationally.

Annual Follow-up Information

The State Administrator, in conjunction with all Program Managers, will conduct an annual follow-up survey of each course participant for a minimum of three years. For example, participants who participated in the Spring of 1998 should be mailed an Annual Follow-up Questionnaire in late Spring 1999, and for two years thereafter.

The primary purpose is to track business start-ups or business performance over time to determine whether or not NxLevelL[®] helped a business or individual become more successful. In other words, is NxLevelL[®] helping individuals start a business, stay in business, or reach the next level of success? It is critical that a longitudinal study demonstrate that business training can make a difference. The Program Manager may know this by simple observation, but funding partners want a more scientific approach. In general, the questionnaire will collect the following information:

1. How many participants started a business, failed or expanded their business
2. Structure of business or changes in the business
3. Descriptive statement about the status of the business with regard to increase/decrease in gross sales, full-time or part-time employees
4. Information on how individuals are financing start-ups or expansions by source
5. Opinion about how NxLevelL[®] has helped improve business over the previous year

The information should be compiled into a report for submission to the State Administrator or NxLevelL[®]. Based on experience, the follow-up survey should be implemented at the community level by the Program Manager. If the questionnaire is mailed out, the return rate is often too small to make any valid assumptions about the data. To overcome this problem, many training sites have hired a student to call course participants to obtain the minimum, necessary information about whether or not they are still in business, increase or decrease in gross sales or jobs. Whatever the method, it is important to the long-term viability of the training program to collect information on the impact of the training. Remember, NxLevelL[®] is a people business. People, who are the funding partners, respond to success.



NxLevel® Evaluation

for the Entrepreneur Course

Please complete the following survey to the best of your ability. The purpose of the evaluation is to obtain feedback on the course in order to continually improve and/or enhance the NxLevel® Entrepreneurial Training Programs. Please return the questionnaire to your Program Manager. All information will be kept confidential.

Section I. Course Evaluation

1. Please indicate your level of satisfaction regarding the class. (Please circle an answer for each question.)

	Not Satisfied		Somewhat Satisfied		Very Satisfied
1. Did the course meet your expectations?	1	2	3	4	5
2. Was the Instructor organized, knowledgeable and prepared?	1	2	3	4	5
3. Were guest speakers knowledgeable and prepared?	1	2	3	4	5
4. Were overheads, handouts, videos, etc. used effectively?	1	2	3	4	5
5. Were course books acceptable and effective?	1	2	3	4	5
6. Was the Workbook useful?	1	2	3	4	5
7. Was the Resource Guide useful?	1	2	3	4	5
8. Was the room/facility for the class acceptable?	1	2	3	4	5
9. What is your overall satisfaction level for the course?	1	2	3	4	5

2. Please rate the overall value of the course. (Circle one.)

Poor		Good		Excellent
1	2	3	4	5

3. Please rate the quality of each training session. Were they relevant and applicable to your needs?

	Not Relevant		Relevant		More Relevant
1. Introduction: Overview & Entrepreneurship	1	2	3	4	5
2. Planning & Research: Entrepreneurial Essentials	1	2	3	4	5
3. Organizational Matters: Management & Legal Structure	1	2	3	4	5
4. Marketing: Analysis & Understanding	1	2	3	4	5
5. Marketing: Strategies, Tactics & Implementation	1	2	3	4	5
6. Financial Overview: Books, Records & Controls	1	2	3	4	5
7. Managing Your Money: Financial Planning & Budgets	1	2	3	4	5
8. Managing Your Money: Developing & Using Cash Flow Projections	1	2	3	4	5
9. Managing Your Money: Understanding & Using Financial Statements	1	2	3	4	5
10. Financing Your Business: Sources of Money	1	2	3	4	5
11. Green Business Opportunities: Environmental Solutions	1	2	3	4	5
12. Your Business Future: Negotiating, Managing Growth & Plan Completion	1	2	3	4	5

4. What did you like best about this course? Explain: _____

5. What did you like least about this course? Explain: _____

6. What class segment did you like best? _____ least? _____

- Class Opener
- Guest Speakers
- Work Hour
- Lecture
- Networking Break

7. What are your feelings about the length of the course? (Circle one.)

- a. Number of sessions 1. too short 2. just right 3. too long
- b. Hours per session 1. too short 2. just right 3. too long

8. How would you rate your Instructor's performance? (Circle one for each question.)

	Poor		Adequate		Excellent
1. Teaching skills	1	2	3	4	5
2. Created a learning environment	1	2	3	4	5
3. Supportive/willingness to help class	1	2	3	4	5
4. Knowledge to answer questions	1	2	3	4	5
5. Accessible to class	1	2	3	4	5
6. Overall performance	1	2	3	4	5

9. Do you have any suggestions for improving the NxLevelL® course? _____

10. What was the one thing, if anything, you got out of class that you think will be most helpful to you in your business life? Explain: _____

11. Would you recommend the course to other people interested in starting a business? 1. Yes 2. No
Why? _____

12. Mark any of the sessions below that you might be interested in attending in the future.

☐ financial issues
☐ budget & accounting
☐ personnel & management
☐ computer application
☐ advertising

☐ retailing
☐ advanced marketing
☐ international business
☐ strategic planning
☐ other (specify): _____

Section II. The Future of Your Business

1. Did you complete your NxLevelL® Business Plan? (Circle one.) 1. Yes 2. No

2. Did your business change as a result of taking the NxLevelL® course? (Circle one.) 1. Yes 2. No

If yes, please explain: _____

3. How do you plan to finance your business during its expansion phase? (Check all that apply.)

☐ Own savings
☐ Friends/Family
☐ Private investor
☐ Loan from bank
☐ Credit card

☐ SBA loan program
☐ Other government program
☐ Investment banker
☐ Other (specify): _____

4. How many jobs do you expect to create in the next 12 months?

1. # of part-time jobs _____

2. # of full-time jobs _____

5. Please give an estimate of your business's projected gross sales for next year's operations.

Projected Gross Sales: \$ _____

Thank You!



NxLevel® Follow-up Questionnaire

for the Entrepreneur Course

Please complete the following questions to the best of your ability. The purpose of the questionnaire is to help NxLevel® sponsors determine the ongoing relevance and whether or not the NxLevel® course helped you develop your business. Please return in the enclosed envelope. All information will be kept confidential. Many thanks for filling out the survey.

Name _____

Title _____

Company Name _____

Address _____

City _____ State _____ Zip _____

Work Phone _____ Home Phone _____

1. Check which statement best describes the status of your business. (Check all that apply.)

- | | |
|--|---|
| 1. <input type="checkbox"/> Purchased a business | 6. <input type="checkbox"/> Sold my business |
| 2. <input type="checkbox"/> Joined a partnership | 7. <input type="checkbox"/> Found employment instead |
| 3. <input type="checkbox"/> Continued to operate my business | 8. <input type="checkbox"/> Closed my business |
| 4. <input type="checkbox"/> Retired, family operating business | 9. <input type="checkbox"/> Operating a family-owned business |
| 5. <input type="checkbox"/> Expanded my business | 10. <input type="checkbox"/> Other (specify): _____ |

2. What is the legal status of your business? (Check one.)

- | | |
|---|---|
| 1. <input type="checkbox"/> Sole Proprietorship | 4. <input type="checkbox"/> C-Corporation |
| 2. <input type="checkbox"/> General Partnership | 5. <input type="checkbox"/> S-Corporation |
| 3. <input type="checkbox"/> Limited Partnership | 6. <input type="checkbox"/> Limited Liability Company |

3. How many jobs have been created as a result of your participation in NxLevel® over the past year.

- | | |
|------------------------------|------------------------------|
| 1. # of part-time jobs _____ | 2. # of full-time jobs _____ |
|------------------------------|------------------------------|

4. How many jobs will you create in the next 12 months. # of jobs _____

5. What was your gross sales over the past 12 months? Gross Sales: \$ _____

6. Please give an estimate of your business's projected gross sales for your next year of operations.

Projected Gross Sales: \$ _____

7. If you expanded, how was it financed? (Check all that apply.)

- | | |
|--|--|
| 1. <input type="checkbox"/> Own savings | 5. <input type="checkbox"/> Credit card |
| 2. <input type="checkbox"/> Friends/Family | 6. <input type="checkbox"/> Government program |
| 3. <input type="checkbox"/> Private investor | 7. <input type="checkbox"/> Investment banker |
| 4. <input type="checkbox"/> Loan from bank | 8. <input type="checkbox"/> Other (specify): _____ |

8. If you plan to obtain additional financing within the next year, please indicate what type. (Check all that apply.)

- | | |
|---|--|
| 1. <input type="checkbox"/> Working capital | 4. <input type="checkbox"/> Fixed assets |
| 2. <input type="checkbox"/> Line of credit | 5. <input type="checkbox"/> Equipment |
| 3. <input type="checkbox"/> Real estate | 6. <input type="checkbox"/> Other (specify): _____ |

9. Will the business be your sole source of household income? (Circle one.) 1. Yes 2. No

10. Thinking back on your NxLevel® course, please rate its usefulness in helping you in your business life. (Circle one.)

- | | | |
|-----------------|----------------------|-----------------------|
| 1. Not Valuable | 2. Somewhat Valuable | 3. Extremely Valuable |
|-----------------|----------------------|-----------------------|

11. What was the one thing, if anything, you got out of the NxLevel® course that you think has been the most helpful to you in your business life? _____

Thank You!



NxLevel[®] Report

Course title: _____

Organization: _____

Cycle: _____ Community: _____

Section I. Class Profile

1. Type of participant: ____ % Start-up ____ % Existing Business ____ % Spouse/Partner

2. Gender: Male ____ % Female ____ %

3. Average age: ____ yrs.

4. Ethnic background:

____ % African-American

____ % Hispanic

____ % Asian-American

____ % Native-American

____ % Caucasian

____ % Other (specify): _____

5. Highest education attainment:

____ % Secondary School

____ % Some College

____ % High School

____ % 2-yr College Grad

____ % Some Voc. Tech

____ % 4-yr College Grad

____ % Voc. Tech Grad

____ % Post Graduate College

6. Average gross income: \$ _____

7. List of present occupations:

____ % _____

____ % _____

____ % _____

____ % _____

____ % _____

____ % _____

8. Previously owned/operated business: ____ % Yes ____ % No

Section II. Business Profile (Existing Business)

1. Main activity of business:

___ % Ag Services
___ % Ag Production
___ % Arts/Crafts
___ % Assembly
___ % Food Catering
___ % Construction
___ % Consumer Services
___ % Financial Services
___ % Health Services

___ % Manufacturing
___ % Mechanical Repair
___ % Professional Services
___ % Restaurant
___ % Retail
___ % Transportation
___ % Food Products
___ % Wholesale/Distribution
___ % Other (specify): _____

2. Primary owner/operator of business: ___ % Primary Owner ___ % Jointly Owned

3. Current form of ownership:

___ % Proprietorship
___ % General Partnership
___ % Limited Partnership

___ % C-Corporation
___ % S-Corporation
___ % Limited Liability Corp.

4. Average years in business: _____ yrs.

5. Status of business:

___ % Idea Stage
___ % Start-up < 2 yrs.
___ % Part-time

___ % Existing > 2 yrs.
___ % Expanding

6. Average number of employees:

___ # of part-time ___ # of full-time

7. Average gross sales: \$ _____

8. How connected to business:

___ % Started It
___ % Expanded Part-time
___ % Purchased It
___ % Manager Only

___ % Joined Family
___ % Purchased Franchise
___ % Other (specify): _____

Section III: Business Idea (Start-ups)

1. Type of business idea (list top ten):

___ % 1. _____	___ % 6. _____
___ % 2. _____	___ % 7. _____
___ % 3. _____	___ % 8. _____
___ % 4. _____	___ % 9. _____
___ % 5. _____	___ % 10. _____

2. How business will start:

___ % Home-based	___ % Purchase business
___ % Expand part-time	___ % Start from scratch
___ % Franchise	___ % Partnership
___ % Family-owned business	

3. Participant's job relates to business idea: ___ % Yes ___ % No

4. Main activity of business:

___ % Ag Services	___ % Manufacturing
___ % Ag Production	___ % Mechanical Repair
___ % Arts/Crafts	___ % Professional Services
___ % Assembly	___ % Restaurant
___ % Food Catering	___ % Retail
___ % Construction	___ % Transportation
___ % Consumer Services	___ % Food Products
___ % Financial Services	___ % Wholesale/Distribution
___ % Health Services	___ % Other (specify): _____

5. Reasons for starting business:

___ % Wealthy/Famous	___ % Financial Security
___ % Stay at Home	___ % Job Frustration
___ % Specific Business Interest	___ % Follow Someone
___ % Job Security	___ % Supplement Income
___ % Couldn't Find Job	___ % Retirement Income
___ % Outlet for Energy	___ % Work with Family
___ % Own Boss	___ % Other (specify): _____

Section IV. Class Expectations

1. Learned about NxLevel®:

____ % Word of Mouth
____ % Newspaper Ad
____ % Radio
____ % Television
____ % Chamber of Commerce

____ % SBA
____ % Info. Flyer
____ % Mailing
____ % SBDC
____ % Other (specify): _____

2. Top five (5) reasons for NxLevel® enrollment:

____ % 1. _____
____ % 2. _____
____ % 3. _____
____ % 4. _____
____ % 5. _____

3. Top five (5) course learning objectives:

____ % 1. _____
____ % 2. _____
____ % 3. _____
____ % 4. _____
____ % 5. _____

Section V. Course Information

1. Course information:

Tuition Rate	# of Participants	# Completing	# of Graduates	% Graduating

2. List of key local sponsors:

1. _____ 4. _____
2. _____ 5. _____
3. _____ 6. _____

3. Amount of local cash contribution: \$ _____

4. Estimated value of in-kind contribution: \$ _____

Section VI. Course Evaluation

1. Overall value of the course: Rating: _____

2. Top three (3) rated course sessions:

1. _____ Rating: ____

2. _____ Rating: ____

3. _____ Rating: ____

3. Instructor's overall performance: Rating: _____

4. What participants liked or disliked:

Liked best

____% _____

____% _____

____% _____

Liked least

____% _____

____% _____

____% _____

5. Class segment information:

Liked best

____% _____

____% _____

____% _____

Liked least

____% _____

____% _____

____% _____

6. Top five (5) suggestions for improving course:

1. _____

2. _____

3. _____

4. _____

5. _____

7. Most helpful aspects of the course:

1. _____

2. _____

3. _____

4. _____

5. _____

8. Recommend course to others: ____ % Yes ____ % No

Section VII. Their Business Future

1. Percent completing plans: _____ % Start-up Plan _____ % Business Plan
2. Has NxLevel® course changed business: _____ % Yes _____ % No
3. Financing business expansion:

_____ % Savings	_____ % SBA Loan
_____ % Friends/Family	_____ % Gov't Program
_____ % Private Investor	_____ % Investment Banker
_____ % Bank Loan	_____ % Bank Loan
_____ % Credit Card	_____ % Other (specify):
4. Average job creation in next 12 months: _____ # of part-time _____ # of full-time
5. Average projected gross sales for next year: \$ _____

Section VIII. Their Business Idea

1. Business category:

_____ % Construction	_____ % Manufacturing
_____ % Transportation	_____ % Wholesale/Distribution
_____ % Agriculture	_____ % Retail
_____ % Financial	_____ % Consumer Services
_____ % Health Services	_____ % Extraction
_____ % Professional Services	_____ % Other (specify): _____
_____ % Assembly	
2. Top five (5) products/services:

_____ % 1. _____	_____ % 4. _____
_____ % 2. _____	_____ % 5. _____
_____ % 3. _____	
3. Form of ownership:

_____ % Proprietorship	_____ % C-Corporation
_____ % General Partnership	_____ % S-Corporation
_____ % Limited Partnership	_____ % Limited Liability Corp.
4. Average job creation in next year: Average # of jobs: _____
5. Average projected gross sales: \$ _____
6. Idea change because of course: _____ % Yes _____ % No

Thank You!

Site: _____

Registration Date: _____



NxLevel[®] Registration Form

for the Entrepreneur Course

Name:	Work Phone: ()		
Name of Your Business:	Home Phone: ()		
	Fax Number: ()		
Title:	e-mail:		
Business Address:	City:	State:	Zip:
Home Address:	City:	State:	Zip:

SECTION I. PERSONAL PROFILE

Please check or circle the response that best applies to your situation. All information will be kept confidential.

1. Gender		<input type="checkbox"/> 1. Male	<input type="checkbox"/> 2. Female
2. What is your age?		_____ years old.	
3. What is your ethnic background?			
<input type="checkbox"/> 1. African-American	<input type="checkbox"/> 3. Hispanic	<input type="checkbox"/> 5. Caucasian	
<input type="checkbox"/> 2. Asian-American	<input type="checkbox"/> 4. Native-American	<input type="checkbox"/> 6. Other (specify): _____	
4. Which category best describes your formal years of education? (Check one.)			
<input type="checkbox"/> 1. Elementary/Secondary School	<input type="checkbox"/> 4. Vocational/trade school graduate	<input type="checkbox"/> 7. A 4-year college graduate	
<input type="checkbox"/> 2. High School graduate	<input type="checkbox"/> 5. Some College	<input type="checkbox"/> 8. Post graduate college	
<input type="checkbox"/> 3. Some vocational/trade school	<input type="checkbox"/> 6. A 2-year college graduate		
5. Including yourself, how many people are in your household?		Size of household _____	
6. Are you the primary income earner in your household?		<input type="checkbox"/> 1. Yes	<input type="checkbox"/> 2. No
7. What was your gross annual income last year from all sources?		Annual Income: \$ _____	
8. What is your present occupation?			
9. Have you previously owned/operated a business?		<input type="checkbox"/> 1. Yes	<input type="checkbox"/> 2. No

SECTION II. INFORMATION ABOUT YOUR BUSINESS

1. What is the main activity of your business? (Check one.)			
<input type="checkbox"/> 1. Ag services	<input type="checkbox"/> 5. Catering-food service	<input type="checkbox"/> 9. Health services	<input type="checkbox"/> 13. Restaurant/Bar
<input type="checkbox"/> 2. Ag production (crops/livestock)	<input type="checkbox"/> 6. Construction	<input type="checkbox"/> 10. Manufacturing	<input type="checkbox"/> 14. Retail/Merchandising
<input type="checkbox"/> 3. Arts/crafts	<input type="checkbox"/> 7. Consumer services	<input type="checkbox"/> 11. Mechanical repair	<input type="checkbox"/> 15. Transportation
<input type="checkbox"/> 4. Assembly	<input type="checkbox"/> 8. Financial services	<input type="checkbox"/> 12. Professional services	<input type="checkbox"/> 16. Value-added processing (food products)
		<input type="checkbox"/> 17. Wholesale/distribution	<input type="checkbox"/> 18. Other (specify): _____

SECTION II. INFORMATION ABOUT YOUR BUSINESS (CONTINUED)

2. Are you the primary owner/operator of your business? ☐ 1. Primary Owner ☐ 2. Jointly-owned

3. What is the current form of ownership of your business? (Check one.)

- | | | |
|---|---|---|
| <input type="checkbox"/> 1. Limited Liability Company | <input type="checkbox"/> 3. General Partnership | <input type="checkbox"/> 5. C-Corporation |
| <input type="checkbox"/> 2. Sole Proprietorship | <input type="checkbox"/> 4. Limited Partnership | <input type="checkbox"/> 6. S-Corporation |

4. How long have you been operating/managing this business? ____ years

5. How would you best describe the status of your business today? (Check one.)

- | | | |
|--|--|---|
| <input type="checkbox"/> 1. Idea for a potential business | <input type="checkbox"/> 3. Part-time business | <input type="checkbox"/> 5. Expanding the business (more than 2 yrs. old) |
| <input type="checkbox"/> 2. Start-up business (less than 2 yrs. old) | <input type="checkbox"/> 4. Existing business (more than 2 yrs. old) | |

6. Including yourself, how many people does your business presently employ?

- | | |
|--|--|
| <input type="checkbox"/> 1. # of part-time employees: ____ | <input type="checkbox"/> 2. # of full-time employees: ____ |
|--|--|

7. What was your gross sales revenue for last year? Gross sales: \$ _____

8. How did you become connected with your business? (Check one.)

- | | |
|---|--|
| <input type="checkbox"/> 1. I started it | <input type="checkbox"/> 5. I joined my family in operating it |
| <input type="checkbox"/> 2. I am expanding a part-time business | <input type="checkbox"/> 6. I purchased a franchise |
| <input type="checkbox"/> 3. I purchased it | <input type="checkbox"/> 7. Other (specify): _____ |
| <input type="checkbox"/> 4. I do not own, but I am the manager | |

SECTION III. YOUR CLASS EXPECTATIONS

1. How did you learn about NxLevel®? (Please check one.)

- | | | |
|---|---|--|
| <input type="checkbox"/> 1. Word of mouth | <input type="checkbox"/> 4. Television | <input type="checkbox"/> 7. Information flyer/brochure |
| <input type="checkbox"/> 2. Newspaper ad | <input type="checkbox"/> 5. Chamber of Commerce | <input type="checkbox"/> 8. Local sponsor mailing |
| <input type="checkbox"/> 3. Radio | <input type="checkbox"/> 6. SBA | <input type="checkbox"/> 9. SBDC |
| | <input type="checkbox"/> 10. Other (specify): _____ | |

2. Please list the top three (3) reasons for enrolling in the NxLevel® course:

1. _____
2. _____
3. _____

3. Please list your top five (5) learning objectives for this course:

1. _____
2. _____
3. _____
4. _____
5. _____



NXLEVEL® EVALUATION

SESSION NUMBER							
SESSION INSTRUCTOR							
DATE							
Please write comments on the back of this card.							
USEFULNESS.....	POOR	1	2	3	4	5	EXCELLENT
QUALITY OF SESSION.....	1	2	3	4	5		
INFORMATION GAINED	1	2	3	4	5		
QUALITY/RELEVANCY OF TEXT MATERIAL	1	2	3	4	5		
QUALITY OF GUEST SPEAKER	1	2	3	4	5		



NXLEVEL® EVALUATION

SESSION NUMBER							
SESSION INSTRUCTOR							
DATE							
Please write comments on the back of this card.							
USEFULNESS.....	POOR	1	2	3	4	5	EXCELLENT
QUALITY OF SESSION.....	1	2	3	4	5		
INFORMATION GAINED	1	2	3	4	5		
QUALITY/RELEVANCY OF TEXT MATERIAL	1	2	3	4	5		
QUALITY OF GUEST SPEAKER	1	2	3	4	5		



NXLEVEL® EVALUATION

SESSION NUMBER							
SESSION INSTRUCTOR							
DATE							
Please write comments on the back of this card.							
USEFULNESS.....	POOR	1	2	3	4	5	EXCELLENT
QUALITY OF SESSION.....	1	2	3	4	5		
INFORMATION GAINED	1	2	3	4	5		
QUALITY/RELEVANCY OF TEXT MATERIAL	1	2	3	4	5		
QUALITY OF GUEST SPEAKER	1	2	3	4	5		



NXLEVEL® EVALUATION

SESSION NUMBER							
SESSION INSTRUCTOR							
DATE							
Please write comments on the back of this card.							
USEFULNESS.....	POOR	1	2	3	4	5	EXCELLENT
QUALITY OF SESSION.....	1	2	3	4	5		
INFORMATION GAINED	1	2	3	4	5		
QUALITY/RELEVANCY OF TEXT MATERIAL	1	2	3	4	5		
QUALITY OF GUEST SPEAKER	1	2	3	4	5		

I'VE GOT A SECRET

Objective

To accomplish individual introductions in a fun way.

Procedure

At the beginning of a session, or at a food break, comment on the importance of informality and getting acquainted with other participants. But rather than have individuals introduce themselves tell the group they will introduce the person to their right. They will have 1 - 5 minutes to learn that person's name, business or business idea and personal background. Then humorously suggest they divulge some deep, dark secret about themselves that "nobody in the whole world knows about them"!

Start the process with the first person who introduces the individual on his/her right. To start things off, the instructor could begin. Keep things moving quickly and lightly.

If participants are seated at round tables, randomly select any participant. If theater or U-shaped seating is used, start introductions in the front of the room.

Materials Required

None.

Approximate Time Required

10 - 25 minutes (depending on the size of the group).

BRAINSTORMING REVISED

Objective

To clear cobwebs in group work and acclimate participants to a creative process.

Procedure

Although “brainstorming” has been around since Alex Osbourne’s introduction of this technique in the 1950’s, it seems now to be regaining popularity after many years of dormancy.

Since many participants have never been exposed to this novel approach to problem solving, review and describe the four rules of brainstorming:

1. No critical judgement allowed
2. Quantity not quality, is desired
3. The wilder the better!
4. Hitchhiking (combination and improvement) is sought

To get participants in a creative mood, it is suggested that a “warm-up” exercise be used. For example, small groups of 3-4 are formed and participants are asked to think of different uses for a paper-clip. Announce that they have just 60 seconds, and have someone jot down the number of ideas their groups suggests. (Don’t write out the actual ideas.) Following this exercise, address the real-world problem to attack.

Materials Required

None.

Approximate Time Required

12 - 15 minutes (depending on the size of the group).

ALPHABET SOUP

Objective

To allow participants some practice in simple problem solving.

Procedure

Prepare the following questions as a simple quiz. Ask participants to complete the exercise as quickly as possible.

1. What is the only letter open on all sides?
2. What are the only curved letters that are the same upside down?
3. What are the only letters containing one single horizontal line?
4. What are the only letters with two parallel horizontal lines?
5. What are the only letters with two diagonal straight lines?
6. Abecedarians who mind their P's and Q's should have little trouble with this puzzle:

What letter of the alphabet is:

- a. a bird?
- b. part of your head?
- c. an insect?
- d. a drink?
- e. a building extension?
- f. a hint?
- g. a vegetable?
- h. a body of water?
- i. a farm animal?

Materials Required

Handout sheets.

Approximate Time Required

5-10 minutes.

Alphabet Soup—Answers

- | | | |
|---------------------|---------|------|
| 1. X | 6. a. J | f. Q |
| 2. S or O | b. I | g. P |
| 3. A, G, H, J, L, T | c. B | h. C |
| 4. I, Z | d. T | i. U |
| 5. X, Y | e. L | |

BRAINTEASERS—WORD PUZZLES 1-4

Objective

To be used to introduce any session on creativity, problem solving or related topic. Just for fun or as a “icebreaker”.

Procedure

Hand out copies of any of the following Word Puzzles. Suggest that each block represents a well known phrase or saying.

Materials Required

Handout sheets.

Approximate Time Required

5 - 10 minutes.

WORD PUZZLE 1

Here are some real puzzlers for you!
Decipher the hidden meaning of each set of words.


1 cry m . \ k	2 MAN campus	3 111111 another another another another another	4 BUSINES
5 C ZCE LLED	6 MOVING MOVING	7 R()AI)	8 sitting world
9 ME ME ME day AL AL AL	10 VIT__MIN	11 S T P E I N G	12 REVIRDTAES
13 NO NO CORRECT	14 head ache	15 heatheatheatheatheat	16 MOUNTAIN

WORD PUZZLE 1—ANSWERS

1. Cry over spilled milk
2. Big man on campus
3. Six of one; half dozen of the other
4. Unfinished business
5. Cancelled check
6. Moving in the right circles
7. Middle of the road
8. Sitting on top of the world
9. Three square meals a day
10. Vitamin "A" deficiency
11. Stepping over
12. backseat driver
13. Right under your nose
14. Splitting headache
15. Heatwave
16. Mountain climbing

WORD PUZZLE 2

Here are some real puzzlers for you!
Decipher the hidden meaning of each set of words.

1 FGH ^I JKLMNOP ^Q RST	2 EILNPU	3 PLASMA H ₂ O	4 MONOSIT ^m
5 NOXQQIVIT	6 arrest you're	7 RUINS RUINS RUINS RUINS RUINS LOVE RUINS RUINS RUINS RUINS	8 PICT RES
9 L NCH L NCH	10 44444	11 DISTANCE 	12 P NOANO Y
13 cy cy	14 B ILL ED	15 POLMOMICE	16 HIGH CLOUDS CLOUDS CLOUDS CLOUDS CLOUDS

WORD PUZZLE 2—ANSWERS

1. High I. Q.
2. Line up
3. Blood is thicker than water
4. Mixed emotions
5. No excuse for it
6. You're under arrest
7. Love among the ruins
8. You ought to be in pictures
9. Take you out to lunch
10. Petit fours
11. Distance running
12. Pay through the nose
13. Cyclones
14. Sick in bed
15. Mother-in-law
16. High above the clouds

WORD PUZZLE 3

Here are some real puzzlers for you!
Decipher the hidden meaning of each set of words.



1 <div>U S T I</div>	2 <div>STROKES! STROKES! STROKES!</div>	3 <div>SOMETHING</div>	4 <div>KJUSTK</div>
5 <div>S T I N K</div>	6 <div>W A L K G N I K</div>	7 <div>you just me</div>	8 <div>M M A P</div>
9 <div>FISHING C</div>	10 <div>GET IT GET IT GET IT GET IT</div>	11 <div>more it it thani</div>	12 <div>VAD ERS</div>
13 <div>i.e. •</div>	14 <div>GOLDEN GATE H₂O</div>	15 <div>WAY _____ PASS</div>	16 <div>END N D</div>

WORD PUZZLE 3—ANSWERS

1. It's up to you
2. Different strokes
3. Start of something big
4. Just in case
5. Fouled up
6. Jay walking
7. Just between you and me
8. Time's up
9. Deep sea fishing
10. Forget it
11. More to it that meets the eye
12. Space invaders
13. That is beside the point
14. Water under the bridge
15. Highway overpass
16. Making ends meet

WORD PUZZLE 4

Here are some real puzzlers for you!
Decipher the hidden meaning of each set of words.

1 HAMLET WORDS	2 o o d l e	3 late ne_v er	4 clou
5 lo head ve heels	6 <i>THAT</i>	7 BED FA ST	8 
9 CAR JACK TON	10 1. GLANCE 2. <input type="checkbox"/> 3. GLANCE	11 momanon	12 ca se case
13 	14 NI N TH	15 C C C C HOLIDAY	16 S K I N G

WORD PUZZLE 4—ANSWERS

1. Play on words
2. Dipsy doodle
3. Better late than never
4. Partly cloudy
5. Head over heels in love
6. Fancy that
7. Bed and breakfast
8. This round is on me
9. Jack-in-the-box
10. Without a second glance
11. Man in the moon
12. Open-and-shut case
13. A round of drinks
14. Middle of the ninth
15. Overseas holiday
16. Downhill skiing

THE 80-20 RULE

Many business people are surprised when they learn the Pareto Principle, also known as the “80-20 Rule.” The rule states that 80 percent of your results come from 20 percent of your efforts.

The rule is almost invariably accurate and translates to more than your personal efforts. For instance:

- 80% of your sales will come from 20% of your sales staff
- 80% of purchases made from your business will come from 20% of your customers
- 80% of your personal production will come from 20% of the work you do
- 80% of your profits will come from 20% of your product line

How can you use the 80-20 rule to improve your business and your personal productivity?

Stop and think about what you do throughout your workday. Consider what actions you take that generate income for your company. Is it sales calls? Is it opening the mail? Is it going to the bank? Whatever it is that generates the bulk of your sales will probably only take about 20% of your time.

Your job, as an entrepreneur, then, is to expand the amount of “20%-ing” you do so that you can generate more results. You can off-load the unproductive tasks to someone else. For instance, you may find that running to the post office and bank, while necessary, actually take up too much of your time. Delegate those tasks to someone on staff or hire someone part-time to do the chores that keep you from your productive work.

Evaluate your sales staff to see who the “20%-ers” are. Reward them for their service and always be on the lookout for “20%-ers” in other companies who may be willing to come work for you because you treat producers properly.

Look at your customer list to see which 20% is responsible for the 80% of your sales. Make sure you keep them extra happy and work to increase their purchases. By raising the amount of purchases a “20%-er” makes, you’ll increase your entire bottom line.

Take a good look at your business. You’ll find that in almost every aspect of it, 20% of the effort, people or your personal efforts generate 80% of the results. Simply identify the 20% and expand the amount of it you do and you’ll continue to grow your business.

EXERCISE:

Divide the class into smaller groups of 3-5. Ask each group to identify the top 2 areas they will examine within their businesses to determine where their 20% efforts are being spent most productively; then identify the top two areas where 80% of their efforts are probably netting only 20% results. Have each group report out, and log answers on a board/flip chart. Discuss.

GET YOUR **ACT** TOGETHER

Getting your act together increasing your business' income can be as simple as increasing your **Average Customer Transaction**. We all look for ways to increase the bottom line, but sometimes we forget a truism of marketing and sales: The customer you've got is the cheapest customer to work with.

It costs far more per customer to bring new customers in. It is relatively inexpensive to keep existing customers coming back. They know you, are comfortable with you and feel good about doing business with you.

So how can you get your existing customers to spend more money with you? You increase your average customer transaction. Have you ever noticed that when you go to McDonald's and order only a sandwich you're asked, "Would you like fries with that?" Asking a simple question like that has meant millions of dollars of extra revenue because the sales people are suggesting a natural add-on to a purchase.

If you sell clothing, you could suggest a nice silk tie with a suit of clothes. If you operate a car wash, you could suggest an anti-rust treatment along with the wash. A CPA might want to suggest monthly or quarterly reviews of the books along with tax preparation service.

Increasing the average customer transaction is an easy way to increase your bottom line and serve your customer as well. How many times have you gotten home after a special trip to a store to buy an item only to realize that you forgot something you need to make the purchase work properly? By asking your customer if they'd like an add-on item, you are actually doing them a service. The worst they can do is say no.

Besides, have you ever eaten a hamburger without fries?

EXERCISE:

Divide into smaller groups of 3-5. For each business in the group, brainstorm 2 ways of expanding the ACT within that business. Have each group report their findings out to the class as a whole.

THE BUSINESS HORSE

Tribal wisdom says that when you discover you are riding a dead horse, the best strategy is to dismount. However, in business we often try other strategies with dead horses, including the following:

1. Buying a stronger whip.
2. Changing riders.
3. Saying things like: "This is the way we always have ridden this horse."
4. Appointing a committee to study the horse.
5. Arranging to visit other sites to see how they ride dead horses.
6. Increasing the standards to ride dead horses.
7. Appointing a tiger team to revive the dead horse.
8. Creating a training session to increase our riding ability.
9. Comparing the state of dead horses in today's environment.
10. Changing the requirements, thereby declaring that "This horse is not dead."
11. Hiring contractors to ride the dead horse.
12. Harnessing several dead horses together for increased speed.
13. Declaring that "No horse is too dead to beat."
14. Providing additional funding to increase the horse's performance.
15. Doing a study to see if contractors can ride it cheaper.
16. Purchasing a product to make dead horses run faster.
17. Declaring the horse is "better, faster, and cheaper" dead.
18. Forming a quality circle to find uses for dead horses.
19. Saying this horse was procured with cost as an independent variable.
20. Promoting the dead horse to a supervisory position.

1 E T H R E T A	2 THE BGG	3 SENTENC	4 CCCCNN
5 HOUSE PRAIRIE	6 LAMOTHERW	7 P U R PURPOSE O S E	8 KNRID
9 NVGREEN	10 PAIN S	11 NOITANIMIRCSID	12 MY1111LIFE
13 DECI SION	14 SELF-ESTEEM	15 COUCURT	16 <u>BRIDGE</u> H2O

MORE BRAIN TEASERS—ANSWERS

1. Theater in the round
2. The Bee Gees
3. Incomplete sentence
4. Four seasons
5. Little House on the Prairie
6. Mother-in-law
7. Cross purposes
8. Mixed drink
9. Green with envy
10. Growing pains
11. Reverse discrimination
12. For once in my life
13. Split decision
14. Low self-esteem
15. See you in court
16. Water under the bridge

ALPHABET EQUATIONS

Find the common phrase or saying in the alphabet equations below.

26 = L. of the A. _____

7 = W. of the A. W. _____

12 = S. of the Z. _____

88 = P. K. _____

1001 = A. N. _____

32 = D. F. at which W. F. _____

90 = D. in a R. A. _____

200 = D. for P. G. in M. _____

4 = Q. in a G. _____

1 = W. on a U. _____

29 = D. in F. in a L. Y. _____

40 = D. and N. of the G. F. _____

64 = S. on a C. _____

13 = S. on the A. F. _____

18 = H. on a G. C. _____

3 = B. M. (S. H. T. R.) _____

57 = H. V. _____

9 = L. that a C. H. _____

24 = H. in a D. _____

11 = P. on a F. T. _____

5 = D. in a Z. C. _____

1000 = W. that a P. is W. _____

ALPHABET EQUATIONS—ANSWERS

26	=	Letters of the Alphabet
7	=	Wonders of the Ancient World
12	=	Signs of the Zodiac
88	=	Piano Keys
1001	=	Arabian Nights
32	=	Degrees Fahrenheit at which Water Freezes
90	=	Degrees in a Right Angle
200	=	Dollars for Passing Go in Monopoly
4	=	Quarters in a Game
1	=	Wheel on a Unicycle
29	=	Days in February in a Leap Year
40	=	Days and Nights of the Great Flood
64	=	Squares on a Chessboard
13	=	Stripes on the American Flag
18	=	Holes on a Golf Course
3	=	Blind Mice (See How They Run)
57	=	Heinz Varieties
9	=	Lives that a Cat Has
24	=	Hours in a Day
11	=	Players on a Football Team
5	=	Digits in a Zip Code
1000	=	Words that a Picture is Worth

Check out these REAL Advertisements!

1. Illiterate? Write today for free help.
2. Auto Repair Service: Free pick-up and delivery. Try us once, you'll never go anywhere again.
3. Our experienced Mom will care for your child. Fenced yard, meals and smacks included.
4. Dog for sale. Eats anything and is fond of children.
5. Man wanted to work in dynamite factory. Must be willing to travel.
6. Stock up and save. Limit one.
7. 3-year old teacher needed for pre-school. Experience preferred.
8. Mixing bowl set designed to please a cook with round bottom for efficient beating.
9. Dinner special: Turkey \$2.35; Chicken or Beef \$2.25; Children \$2.00
10. For sale: Antique desk suitable for lady with thick legs and large drawers.
11. Now is your chance to have your ears pierced and get an extra pair to take home.
12. We do not tear your clothing with machinery. We do it carefully by hand.
13. For sale: Three canaries of undermined sex.
14. Have several very old dresses from grandmother in beautiful condition.
15. Vacation special: have your home exterminated.
16. Get rid of aunts. Zap does it in 24 hours.
17. Toaster: A gift that every member of the family appreciates. Automatically burns toast.
18. For rent: 6-room hated apartment.
19. Man, honest; will take anything.
20. And now, the Superstore-unequaled in size, unmatched in variety, unrivaled inconvenience.
21. We will oil your sewing machine and adjust tension in your home for \$1.00.

A LESSON IN PRIORITIZATION

An expert in time management was speaking to a group of business students and, to drive home a point, used an illustration those students will never forget!

As this woman stood in front of the group of high-powered over-achievers she said, “Okay, time for a quiz.” Then she pulled out a one-gallon wide-mouthed mason jar and set it on a table in front of her. She then produced about a dozen fist-sized rocks and carefully placed them, one at a time, into the jar. When the jar was filled to the top and no more rocks would fit inside, she asked, “Is this jar full?”

Everyone in the class said, “Yes.”

Then she said, “Really?” She reached under the table and pulled out a bucket of gravel. Then she dumped some gravel in and shook the jar causing pieces of gravel to work themselves down into the spaces between the big rocks.

Then she asked the group once more, “Is the jar full?” By this time the class was onto her. “Probably not,” one of them answered. “Good!” she replied.

She reached under the table and brought out a bucket of sand. She started dumping in the sand and it went into all the spaces left between the rocks and the gravel. Once more she asked the question, “Is this jar full?”

“No!” the class shouted. Once again she said, “Good!”

Then she grabbed a pitcher of water and began to pour it in until the jar was filled to the brim. Then she looked up at the class and asked, “What is the point of this illustration?”

One eager beaver raised his hand and said, “The point is, no matter how full your schedule is, if you try really hard, you can always fit some more things into it!”

“No,” the woman replied, “that’s not the point. The truth this illustration teaches us is: If you don’t put the big rocks in first, you’ll never get them in at all.”

Exercise:

DO the above illustration. You need: a one-gallon wide-mouthed mason jar, about 12 fist-sized rocks, some gravel, some sand, and some water.

After the illustration, ask the question: “What are YOUR big rocks?”

This is a great exercise to do at the start of the financial sessions, since bookkeeping, record-keeping and understanding financial information tends to be one of those BIG ROCKS that many people want to put off dealing with!

CUSTOMER WORD FINDER

Objective:

To illustrate the value of tapping into your ENTIRE business team's knowledge and thinking styles, rather than just relying on your own.

Procedure:

Write the word CUSTOMER on the blackboard, whiteboard or a blank flip chart. Then hand out a sheet of paper to each participant that says the following:

CUSTOMER

YOUR TASK:

Working alone, identify as many legitimate two-or -more letter words as you can from the letters in the word “customer” (you may only use the letters that appear once in a word).

Before you begin, make two predictions:

1. How many words do you think you can identify? _____
2. If I split you into teams of 5, how many words do you think your team as a whole will be able to identify? _____

Words found:

Allow approximately 5 minutes of individual work time. Have each participant stop, and record the number of words they individually found. Then quickly divide the group into teams of 5. Allow approximately 5 more minutes to “collaborate” as a team to develop their team list of words. (Suggestion: Tape several blank pieces of flip chart paper around the room, and have each team work at a flip chart to log all the words the team members identified.)

After 5 minutes of group work time, call STOP. Have each team count their team total. Then ask the following questions:

1. How many words did you predict you'd find? How many words did you **ACTUALLY** find? How does your own individual performance expectation compare to the expectations others held for themselves?
2. How many words did you predict the team could find? How does that compare to your actual team total?
3. What does this exercise illustrate to you?

CUSTOMER WORD FINDER—CONTINUED

HINT— As part of the post-activity discussion mention to the group:

Team members with high verbal skills typically do well on this activity. Those with lower verbal skills may experience some frustration, but that doesn't mean they are "non-productive" team members! Some people are good with words, others may be better with numbers or analyzing spatial issues, or dealing with customers. The wisdom comes from learning to tap into all of the strengths, resources and skills each TEAM MEMBER has to offer the business.

Whose responsibility is it to identify the team members' skills in your business?

Here's a PARTIAL list of words that can be formed from the letters in the base word CUSTOMER. Keep looking—there are probably more!

Come	Me	Rouse	Sum
Comes	Met	Rout	To
Corset	More	Route	Toe
Core	Most	Rust	Toes
Cost	Mouse	Rut	Tome
Costume	Must	Scum	Tomes
Costumer	Mute	Set	Tore
Cote	Or	Some	Tour
Course	Ore	Sore	Us
Court	Our	Sot	Use
Custom	Rest	Sour	User
Cur	Rose	Stem	
Curt	Rote	Store	
Cut	Rot	Sue	

THE CYCLE OF SERVICE—HOW TO SEE THINGS FROM THE CUSTOMER'S VIEWPOINT

Whenever you travel to a place you have never been, it's always best to bring a map. When customers come to your company, they are guided by their own "maps"—previous service experiences with your firm or ones like it, life experiences, service histories, and recommendations from others. In order to understand your customer's experience, let's look at a map known as the Cycle of Service.

This mapping process consists of three basic parts:

* The beginning. This is the point at which the customer first comes into contact with you, your people, your systems, and some or all of your entire organization. This is the doorway to the service concept known as the "moment of truth". At the start, the customer is making certain basic, intuitive, or even sophisticated value judgments about your company.

* The middle. As the service experience continues, more and more moments of truth are piling up in the customer's mind.

* And the end of the customer's experience. At this point, the customer has completed business with you, and his or her mental report card has already posted a grade. Some people use their own "pass/fail" system—Was this a good experience? Would I come here again? Others are more diligent: What went right here? What went wrong? What did I like or dislike?

The Cycle of Service is a series of "moments of truth" your customer goes through as he or she experiences the service your organization delivers. Whereas you and your people might see these steps as simply tasks to complete, the customer sees each situation, taken singly and together, as a complete "service experience".

The Cycle of Service is really a map of your company's systems, broken down into increments, steps, decisions, duties, and activities, all designed to take the customer from the front door, through the company, and back out the front door again. While the Cycle of Service says nothing about your hope that the customer will want to repeat the process with you again, this hope should be built into your thought processes. The power behind the Cycle of Service is the way it helps you see things that are unique from the customer's point of view. The more you can see, understand, and experience the same things as your customer, the better equipped you'll be to fix what needs fixing or adjust what's working well.

Let's choose a common service experience and map it out along the Cycle of Service. As you read and follow the progression, put yourself into that customer's shoes.

You've decided to go to a movie. This figure gives the Cycle of Service from beginning to end, start when you leave your house and drive to the theater. (Note: Visualize this diagram as a circle.)

*	*	*	*	*	*	*	*	*	*	*		
Start	A	B	C	D	E	F	G	H	I	J	K	End

A. Find a parking space at the theater
B. Wait in line to buy a ticket
C. Buy your ticket
D. Enter and give your ticket to the ticket taker
E. Wait in line to buy popcorn and soda

F. Pay for your food
G. Go to the restroom before the movie
H. Go into the theater and find a seat
I. Sit and watch the movie
J. Leave the theater, go back to your car

THE CYCLE OF SERVICE—HOW TO SEE THINGS FROM THE CUSTOMER'S VIEWPOINT—CONT'D

These ten steps represent a sample of your total customer experience at the movies, which is probably a fairly common experience that most of us can relate to. What the customer is experiencing is ten separate “moments of truth”. You, as the customer, are constantly making conscious or subconscious value judgments about each of the moments of truth you encounter. These value judgments go into that mental “service report card” you carry in your head.

These events either exceed your expectations or needs, meet them, or fail to meet them. All customers give you these kinds of “grades” each time they do business with you. Just because you don't hear them out loud doesn't mean they're not being tallied.

Let's break the theater experiences down and look at what could go right and what could go wrong during this excursion into movie-time service.

A. Find a parking space at the theater.

Exceeds Expectations: You find a nice, roomy space in a well-lighted area, close to the front door, and away from those people with their notorious door-denting cars. You see a security guard walking around the lot, keeping an eye on things.

Meets Expectations: You find a space not too close and not too far away from the door.

Fails Expectations: You do not find any parking space in the entire lot and have to park across the road from the theater building.

B. Wait in line to buy a ticket.

Exceeds Expectations: No line; no wait to get your ticket.

Meets Expectations: A short line; not much wait for your ticket; still enough seats left inside.

Fails Expectations: A long line and a long wait to get your ticket; a long line and all tickets sold out for that showing.

C. Buy your ticket.

Exceeds Expectations: Low bargain prices that you didn't expect; a friendly ticket seller who makes pleasant conversation and tells you to enjoy the show; correct change from your bill and a coupon for a discount on your next ticket purchase.

Meets Expectations: Standard prices; a polite ticket seller; correct change; no problems getting a ticket.

Fails Expectations: Higher than expected prices; a rude, surly, or downright dishonest ticket taker who snaps at you, talks on the phone to his or her friends during the transaction, or shortchanges you.

D. Enter the movie theater; give your ticket to the taker.

Exceeds Expectations: A spotless lobby; a charming ticket taker who makes you feel glad you chose that particular movie, gives directions to the theater, and gives you a quick reminder about a new movie coming next week.

Meets Expectations: A clean, well-kept, and well-lighted lobby, and a polite ticket taker who directs you to the correct theater.

Fails Expectations: A filthy lobby with food and trash on the floor; a sour ticket taker who shoves your stub into your hand, says, “Next!” and motions for you to move along.

E. Wait in line to buy popcorn and soda.

Exceeds Expectations: No line, a courteous and friendly counter person who explains the best popcorn and soda bargains for your money, and a cheery send off as you head for the cashier.

Meets Expectations: A short line, a helpful counter person, the right food you ordered, a polite thank you.

Fails Expectations: A long, disorganized line full of angry patrons; a rude counter person who gives you the wrong food and tries to hustle you through his or her station like it was an auto plant assembly line.

THE CYCLE OF SERVICE—HOW TO SEE THINGS FROM THE CUSTOMER’S VIEWPOINT—CONT’D

F. Pay for your food.

Exceeds Expectations: Lower than average prices, the correct change, and a cheerful cashier.

Meets Expectations: Competitive prices, the correct change, and a polite cashier.

Fails Expectations: Excessively high prices, the wrong change, and a mean, obviously bored, or angry cashier.

G. Go to the restroom before the movie.

Exceeds Expectations: Spotlessly clean, roomy, well-lit, dry floors, well-stocked, nice decor.

Meets Expectations: Clean, safe, and functional.

Fails Expectations: Filthy, foul-smelling, broken toilets, missing hand towels, soap, or toilet paper, too crowded, too small.

H. Go into the theater and find a seat.

Exceeds Expectations: Spotless seating area; well-designed theater with no “bad” seats; enough light to find a good chair; pleasant background music or slides on the screen; roomy, comfortable chairs that recline slightly; drink and popcorn cup holders on each seat; a pleasant temperature—not too hot or too cold; no gum on the seat or sticky soda on the floor around you.

Meets Expectations: Clean theater with good seats nearly everywhere; safe, comfortable, and dark enough for you to enjoy the show when the lights go down.

Fails Expectations: Trash on the floor around you as you look for a seat, broken seats, missing armrests, sticky floor with gum everywhere, too hot or too cold, smells like cigarette smoke around you, a movie screen with a tear in it, loud music blaring from the speakers, gloomy lighting, burned-out exit door signs.

I. Sit and watch the movie.

Exceeds Expectations: A fabulous movie in a fabulous theater—great sound system, excellent film quality, no talkers or crying babies around you, and a memorable entertainment experience overall.

Meets Expectations: A good movie in a good theater—good sound system and film quality, polite people nearby, and an enjoyable entertainment experience overall.

Fails Expectations: A rotten movie in a rotten theater—shoddy sound and movie equipment; a terrible film print, out of focus or threaded in backwards; talkers, smokers, and criers nearby; and an awful entertainment experience overall.

J. Leave the theater and go back to your car.

Exceeds Expectations: Friendly theater staff who greet you as you leave, an easy trip through an uncrowded lobby, and a stroll through a clean, well-lit, and secure parking lot to your car.

Meets Expectations: No problem leaving the theater: a safe trip to your car.

Fails Expectations: Rude theater staff filing their nails, horsing around, or throwing food at each other as you leave; an uneasy trip as you’re herded through a crowded lobby and out the door, only to find that your car is in a dark part of the parking lot, or gone altogether.

When you look at these “moments of truth” individually and collectively from the customer’s point of view, what connections can you make with your own experiences?

When an organization exceeds our needs or expectations, we’re pleased and often shocked, since most of our service experiences tend to run at only an acceptable level.

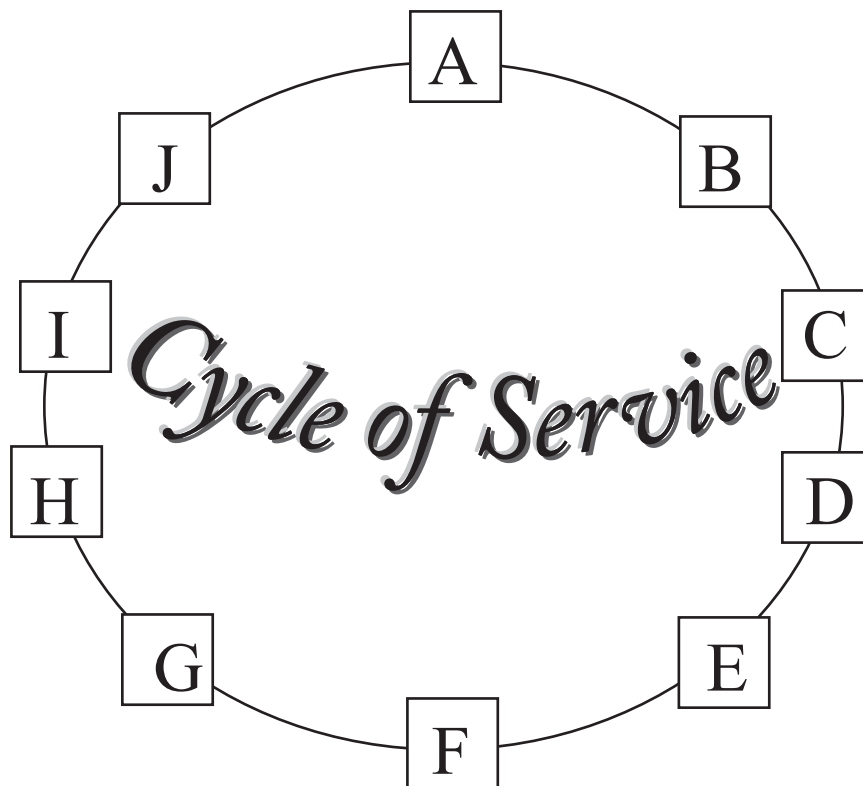
And when an organization fails to meet our needs or expectations, we’re displeased and again, often shocked. Why? Because we’ve been conditioned over the years to expect good or at least acceptable service from the places we patronize. Our mental customer report cards are sacred to most of us. We keep careful tabs on who treats us well and who does not, and impacts our decisions about repeat business and what positive or negative things we say.

THE CYCLE OF SERVICE—HOW TO SEE THINGS FROM THE CUSTOMER’S VIEWPOINT—CONT’D

Studies have shown that people might tell one or two others about excellent customer service. But, they will tell 7 to 10 people about BAD customer service. The point is that you can’t always control what people say about your company. Positive feedback is always worth fighting for. BUT, too much bad press can put you out of business, particularly because it spreads so quickly!

Now that you’ve seen the cycle in operation, it’s time to create separate Cycles of Service for your own organization.

- | | |
|---|---|
| A. Find a parking space at the theater | F. Pay for your food |
| B. Wait in line to buy a ticket | G. Go to the restroom before the movie |
| C. Buy your ticket | H. Go into the theater and find a seat |
| D. Enter and give your ticket to the ticket taker | I. Sit and watch the movie |
| E. Wait in line to buy popcorn and soda | J. Leave the theater, go back to your car |



What are the steps in your Cycle of Service? Are they positive “moments of truth” for your customer? Where can you improve?

- | | |
|----|----|
| A. | F. |
| B. | G. |
| C. | H. |
| D. | I. |
| E. | J. |

instructor's manual

course overview

- | | | |
|----------------|------------|---|
| Session | 1. | Introduction: Overview and Entrepreneurship |
| Session | 2. | Planning and Research: Entrepreneurial Essentials |
| Session | 3. | Organizational Matters: Management and Legal Structure |
| Session | 4. | Marketing: Analysis and Understanding |
| Session | 5. | Marketing: Strategies, Tactics, and Implementation |
| Session | 6. | Financial Overview: Books, Records, and Controls |
| Session | 7. | Managing Your Money: Financial Planning and Budgets |
| Session | 8. | Managing Your Money: Developing and Using Cash Flow Projections |
| Session | 9. | Managing Your Money: Understanding and Using Financial Statements |
| Session | 10. | Financing Your Business: Sources of Money |
| Session | 11. | Green Business Opportunities: Environmental Solutions |
| Session | 12. | Your Business Future: Negotiating, Managing Growth, and Plan Completion |

entrepreneur

Learning Objectives

- Understand the course curriculum and expectations
- Understand the characteristics of successful entrepreneurs
- Understand the components of the NxLevel® Business Plan
- Develop goals, objectives, and a mission statement
- Experience networking with class participants

Introduction: Overview and Entrepreneurship Session One

Date: _____

Instructor Topics

1. Getting the Class Started

- Administrative details
- Staff introductions
- Instructor introduction

2. Course Introduction

- Course overview, books, and session dates
- Class structure

3. Expectations

- Student responsibilities
- Instructor responsibilities

4. Student Introductions

—No Guest Speaker This Session—

Break

- Refreshments
- Networking Activity

5. Thinking Entrepreneurially

6. Introduction to the NxLevel® Business Plan

Work Hour

Assignment for Session Two

TEXT

Read **Part I: Understanding Entrepreneurship** (Chapters 1 through 3); **Part III: Planning Your Business** (Chapters 11 through 13); and **Market Research and Analysis** (Chapter 26). Optional assignment: **Part VII: The Internet and E-Commerce** (Chapters 33 and 34).

WORKBOOK

Read and complete the worksheets in **Workbook Session 1**.

WRITE

Using the *Writing Your Plan* page at the end of **Workbook Session 1** as your guide, write **Section II. Mission, Goals, and Objectives** of your NxLevel® Business Plan.

Learning Objectives

- Understand the course curriculum and expectations
- Understand the characteristics of successful entrepreneurs
- Understand the components of the NxLevel® Business Plan
- Develop goals, objectives, and a mission statement
- Experience networking with class participants

Introduction: Overview and Entrepreneurship Session One

Date: _____

Instructor Topics (60 min.)

- (15 min.) **1. Getting the Class Started**
- Collect student registration forms, collect money, distribute books, etc.
 - Have administrator and staff or sponsors introduce themselves briefly
 - Introduce yourself with a brief history to build credibility
- (15 min.) **2. Course Introduction**
- Course overview, books, and session dates
 - Explain class structure
- (10 min.) **3. Expectations**
- Student responsibilities
 - Instructor responsibilities
- (20 min.) **4. Student Introductions—see Additional Instructor Notes**

—No Guest Speaker This Session—

Break (30 min.)

- Refreshments
- Networking activity

Instructor Topics—continued (30 min.)

- (15 min.) **5. Thinking Entrepreneurially**
- Entrepreneurial Characteristics
 - Ongoing Self-Assessment
 - Exploring Expansion Opportunities
 - Ongoing Business Assessment
- (15 min.) **6. Introduction to the NxLevel® Business Plan**

Work Hour (60 min.)—see Additional Instructor Notes

Assignment for Session Two

TEXT	Read Part I: Understanding Entrepreneurship (Chapters 1 through 3); Part III: Planning Your Business (Chapters 11 through 13); and Market Research and Analysis (Chapter 26). Optional assignment: Part VII: The Internet and E-Commerce (Chapters 33 and 34).
WORKBOOK	Read and complete the worksheets in Workbook Session 1 .
WRITE	Using the <i>Writing Your Plan</i> page at the end of Workbook Session 1 as your guide, write Section II. Mission, Goals, and Objectives of your NxLevel® Business Plan.

ITEMS 1 THROUGH 3 ARE SELF-EXPLANATORY (SEE OVERHEADS 1 THROUGH 4)

STUDENT INTRODUCTIONS

Option 1

Break into groups of 3 to 5. Each member of the group will introduce one of the others in that group. They will have 15 minutes to find out the person's name, business idea, and his or her reason for taking the course. During the conversation, they should also take note of any unique or interesting characteristics the person has. After the fifteen minutes are up, students will tell the whole group what they learned. Students who are being introduced shouldn't say anything until this process is finished.

As each participant introduces the person he or she interviewed, make a list of the words they use to describe the person's characteristics (you'll probably hear words like *energetic*, *enthusiastic*, *serious-minded*, *friendly*, and so forth). This will bring you naturally to the Instructor Lecture Topics. It will also bond the group for future networking, if done properly and with a sense of humor.

Also, listen for reasons people are taking the class. This can make for some great discussion about success, failure, planning, family matters, time management, and other important issues.

Option 2 (works for larger classes where Option 1 would take too long)

Ask participants to introduce themselves in turn, describe their business idea, explain why they are taking the class, and name what they think is their best and worst personality trait in terms of being an entrepreneur. Again, record the key words used to describe their best/worst traits to build your list for the upcoming discussion of entrepreneurial characteristics.

THINKING ENTREPRENEURIALLY

It is important to give participants a sense of the value of small business to their communities, as well as to the local, regional and national economy. Small businesses:

- Create 75 percent of the net new jobs added to the economy
- Employ half of all private sector employees
- Pay almost 45 percent of the total private payroll in the United States
- Employ 40 percent of the nation's high-tech workers
- Comprise 97 percent of all US exporters
- Were awarded \$83.3 billion in direct federal prime contracts in 2007
- Produce 13 times more patents per employee than large firms

Entrepreneurial Characteristics

Review the list of entrepreneurial characteristics on **OHD 1-5**. Then, discuss other influences on entrepreneurial success or failure (time management, family obligations, workaholism, greed, inability to delegate).

Ask the question: *Are entrepreneurs born or made?* Let the class offer various answers. Some will believe they are born to be entrepreneurs, while others will believe they can learn to be (and that's why they're in class).

Use the quote from Peter Drucker, the father of modern management: "Most of what you hear about entrepreneurship is all wrong. It's not magic; it's not mysterious; and it has nothing to do with genes. It's a discipline. And like any discipline, it can be learned."

Ongoing Self-Assessment

Use **OHD/Handout 1-6** to stimulate discussion of who is entrepreneurial. Give participants two minutes to read and check off phrases that apply to them. Discuss. You should also refer them to the self-assessment charts in Chapter 1 of the **TEXT**.

Exploring Expansion Opportunities

Where do business expansion ideas come from? Use **OHD 1-7** to discuss each concept. Ask participants where their idea fits into this list.

Ongoing Business Assessment

If you are planning to grow or expand your business, you need to go through the same type of analysis you should have gone through before starting your business. That process starts with an assessment of your desire to continue being an entrepreneur, and ends in a determination as to whether to grow or expand.

The ongoing assessment process involves:

- Business owner's desires
- Product analysis
- Market / customer analysis
- Competition
- Financial and legal issues
- Business future



NOTE: There will be no specific lecture review of Chapter 3 *Manufacturing, Service, and Retail Businesses*. Encourage participants to read that chapter on their own and bring up questions at the next session.

INTRODUCTION TO THE NxLEVEL® BUSINESS PLAN (SEE OHD/HANDOUT 1-8)

Go over the outline of the NxLevel® Business Plan. Briefly explain the purpose of each main section and tie those sections into the course sessions (see **OHD 1-1**). You will go into more depth next session, so make this an overview only. You can also refer to the outline of the plan in **WORKBOOK SESSION 1**, which shows which section is assigned for each session.

Remember: Although current entrepreneurs may have been in business for quite a while, they may not know what a business plan looks like! Show them *NxLevel® Sample Business Plans* from the NxLevel® Business Plan Library.

Homework Review—none

Workbook Preview—Session 1

- Have participants look at **WORKBOOK SESSION 1**, and suggest that they read the *Writing Hints* section in class. Provide additional guidelines for how you want the business plan written. Also, have participants look at the *Outline of the NxLevel® Business Plan* in the Session 1 Introduction.
- Begin looking at the worksheets. The first page of each session starts with an enlarged, highlighted section of the business plan that participants will be developing as their written homework assignment.
- Each session ends with the *Writing Your Plan* segment, which details how to write the section of the plan being focused on during this session. Use the *NxLevel® Sample Business Plans* to illustrate.
- Discuss how the worksheets within the session (generally designed with the steps for completion on the left and the actual working area on the right) build the information needed for writing the plan. **Ask the questions:** *Why would we ask you to complete all of these assessment worksheets? Is it really necessary?*
- Look at the ***Mission Statement Worksheet*** and the ***Goals and Objectives Worksheet*** and explain how to use them. Help participants understand the difference between a goal and an objective. If time allows, work on the ***Mission Statement Worksheet*** in small groups.
- Once again, point out that each workbook section ends with the *Writing Your Plan* segment, which details how to write that section of the plan.

Review the reading assignment by having participants look at the table of contents in the **TEXT**. Discuss which chapters can be skimmed or skipped, since you covered some of the topics in class.

Depending on the make-up of your class, you may wish to assign **Part VII: The Internet and E-Commerce** (Chapters 33 and 34). Almost every chapter discusses topics that are detailed in these chapters, so if your participants aren't familiar with subjects like **social networking media**, **cloud computing**, and **localized searching**, they should at least skim these chapters before the next class.

Remind participants that they will be using the *Writing Your Plan* pages in the **WORKBOOK** as their guide for the written homework assignment. Again, have participants look at the *NxLevel® Sample Business Plans* to illustrate how the *Writing Your Plan* page sets up the format for the written plan section.



NOTE: At the end of these notes (before the Overheads section), there is a ***Business Plan Writing Assignments Checklist***. You should distribute it as a handout, so that participants can use it to guide the process of writing their business plan. **Also: If you choose to hold Session Two in a library, remind participants of the location change.**



NOTE: The *NxLevel® Signage* supplement can be used as a stand-alone session or added to an existing class as an extra session. This text introduces the ABCs of signage (attracting new customers, branding the business, and creating impulse sales) and relates these issues to the business plan. This supplement was created by NxLevel® through a grant from Signtronix. An instructors' manual is also available.

OVERHEADS AND HANDOUTS FOR SESSION ONE

OHD	1-1	Course Overview by Session
OHD	1-2	Participant Materials
OHD	1-3	Class Agenda
OHD	1-4	Expectations and Ground Rules
OHD	1-5	An Entrepreneur Must Have...
OHD/Handout	1-6	Ongoing Self-Assessment
OHD	1-7	Exploring Business Expansion Opportunities
OHD/Handout	1-8	The NxLevel® Business Plan Outline

See also the ***Business Plan Writing Assignments Checklist*** on the following page, which you can use as a handout.

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION ONE



- Articles on the importance of business planning
- Articles or handouts on the major causes of small-business failure
- Articles on stress and burnout in the entrepreneurial world, and how to handle stress
- Articles about entrepreneurs in the community, or interesting national stories
- Sample business plans from the NxLevel® Sample Business Plan Library

You have the option of finding these articles and publications for use in class, or asking students to search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes below. (This will be particularly helpful if you choose to teach this course again.)



NOTE: Avoid suggesting that students read entire books on related subjects while taking this course. They have plenty of reading and homework to do, and tend to get overwhelmed by the amount of reading, research, and writing already assigned.

Supplemental materials used in Session One

Notes

Entrepreneur Course

Business Plan Writing Assignments Checklist

Session	Writing Assignment	Due	Completed
1	Section II. Mission, Goals, and Objectives General Description of the Business Mission Statement Goals and Objectives		
2	Section III. Background Information Industry (Background, Current and Future Trends) Business Fit in the Industry		
3	Section IV. Organizational Matters A. Business Structure, Management, and Personnel Business Structure Management Personnel Outside Services/Advisors Risk Management		
4	Section V. The Marketing Plan A. Products/Services Description Features/Benefits Life Cycles/Seasonality B. Market Analysis Customer Analysis Competitive Analysis Market Potential		
5	Section V. The Marketing Plan C. Marketing Strategies Location/Distribution Price/Quality Relationship Promotional Strategies Placement/Selling Strategies Customer Service Strategies		
6	Section IV. Organizational Matters B. Operating Controls Recordkeeping Functions Other Operating Controls		
7	Section VI. The Financial Plan A. Financial Worksheets Salaries/Wages & Benefits Outside Services Insurance Advertising Budget Occupancy Expenses Sales Forecasts Cost of Projected Product Units Growth (or Start-Up) Expenses Budget Fixed Assets		
8	Section VI. The Financial Plan C. Cash Flow Projections Break-Even Analysis Monthly Cash Flow Projection-Year One Notes to the Cash Flow Projections Cash Flow Projections-Years Two and Three		
9	Section VI. The Financial Plan C. Financial Statements Projected Income Statement Balance Sheets Statement of Owner's Equity		
10	Section VI. The Financial Plan D. Additional Financial Information Summary of Financial Needs Existing Debt Personal Financial Statement		
11	Cover Page Table of Contents Section 1. Executive Summary		
11	Appendix Action Log Supporting Documents		

Course Overview

Session

- 1 Introduction: Overview and Entrepreneurship**
- 2 Planning and Research: Entrepreneurial Essentials**
- 3 Organizational Matters: Management and Legal Structure**
- 4 Marketing: Analysis and Understanding**
- 5 Marketing: Strategies, Tactics, and Implementation**
- 6 Financial Overview: Books, Records, and Controls**
- 7 Managing Your Money: Financial Planning and Budgets**
- 8 Managing Your Money: Developing and Using Cash Flow Projections**
- 9 Managing Your Money: Understanding and Using Financial Statements**
- 10 Financing Your Business**
- 11 Green Business Opportunities: Sources of Money**
- 12 Your Business Future: Negotiating, Managing Growth, & Plan Completion**

Participant Materials

Text

NxLevel[®] Guide for Entrepreneurs

Workbook

*NxLevel[®] Business Plan Workbook
and Resource Guide*

- Session Outlines
- Workbook
- Resource Guide
- Class Handouts

Supplemental Handouts

- Sample business plans
- Instructor handouts
- Participant handouts

Class Agenda

Class Opener

Instructor Topics

Guest Speaker

Break

- Refreshments
- Networking Activity

Work Hour

- Discussion Groups
- Worksheet Activities
- Business Plan Sections

Expectations & Ground Rules

Attendance

- **Absenteeism**
- **Being on time**

Participation

- **Discussion**
- **Confidentiality**
- **Listening**

Assignments

- **Reading**
- **Worksheets**
- **Written Business Plan Sections**
- **Format**

General

- **Safe environment to test ideas**
- **Ask questions**
- **Add ground rules as needed**

An Entrepreneur Must Have...

- 1. Passion**
- 2. Creativity**
- 3. Foresight**
- 4. Persistence**
- 5. Self-confidence**
- 6. An open mind**
- 7. Humility**
- 8. Communication skills**
- 9. Good health and high energy**

Ongoing Self-Assessment

Are you entrepreneurial?

Entrepreneurs

Highly motivated
Can't wait to get to work
Lines between work/play blurred
Energetic
Creative
Enthusiastic
Open-minded
Well-rounded
Inquisitive
Assertive
Innovative
Shows great initiative
Independent
Highly developed leadership skills
A doer
Looks towards the future
Enjoys being the boss
Sees problems as opportunities

Non-Entrepreneurs

Motivated by others
“Is it Monday already?”
Work is 9 to 5...period.
Low energy
Don't want to rock the boat
Disengaged
Set in his or her ways
One-dimensional
Fears change
Does only as told
Prefers not to take risks
Waits for orders
Runs with the pack
Lets someone else direct
A watcher
Stuck in the past
Resents the boss
Sees opportunities as problems

Business Expansion Opportunities

Where Do Ideas Come From?

- **Knowledge of an existing customer base with unmet or underserved needs**
- **New uses for old things**
- **New markets (tracking trends)**
- **Joint ventures and partnerships**
- **Networking**
- **Flashes of inspiration**
- **Changing legal, economic, and cultural landscape (e.g., green business, social networking, virtual assistants)**

The NxLevel[®] Business Plan

	Cover Page
	Table of Contents
Section I	Executive Summary
Section II	Mission, Goals, & Objectives
	General Description of the Business
	Mission Statements
	Goals and Objectives
Section III	Background Information
	Industry
	Business Fit in the Industry
Section IV	Organizational Matters
	Business Structure, Management, & Personnel
	Operating Controls
Section V	The Marketing Plan
	Products/Services
	Market Analysis
	Marketing Strategies (Online and Offline)
Section VI	The Financial Plan
	Worksheets and Notes to Cash Flow Projections
	Cash Flow Projections
	Financial Statements
	Additional Financial Information
	Appendix
	Action Log
	Supporting Documents

Learning Objectives

- Understand the business planning process, feasibility studies, and the internal and external uses of a formal business plan
- Understand the components and organization of business plans
- Understand why, how, where, and when to do market research
- Begin market research by identifying industry-specific and global resources
- Build networking skills through interaction with other entrepreneurs and guest speaker

Planning and Research: Entrepreneurial Essentials Session Two

Date: _____

Due: Section II:_____

Mission, Goals, & Objectives_____

Class Opener

Instructor Topics

1. What is Business Planning?
2. Business Plans
3. Conducting Market Research



Guest Speaker

Break

- Refreshments
- Networking Activity

Work Hour

Assignment for Session Three

WORKBOOK

Read and complete the worksheets in **Workbook Session 2**.

WRITE

Using the *Writing Your Plan* page at the end of **Workbook Session 2** as your guide, write **Section III. Background Information**.

TEXT

Read **Part IV: Legal Aspects of Your Business** (Chapters 14 through 20); **Part V: Managing Your Business** (Chapters 21 through 24); **Green Business Opportunities** (Chapter 10); and optional reading from **Part II: Entry and Growth Strategies** (Chapters 4 through 9) as assigned by the instructor.

Learning Objectives

- Understand the business planning process, feasibility studies, and the internal and external uses of a formal business plan
- Understand the components and organization of business plans
- Understand why, how, where, and when to do market research
- Begin market research by identifying industry-specific and global resources
- Build networking skills through interaction with other entrepreneurs and the guest speaker

Planning and Research: Entrepreneurial Essentials Session Two

Date: _____

Due: Section II:_____

Mission, Goals, & Objectives_____

Class Opener (10 min.)

Articles of interest, best / worst news, brain teaser, etc.

Instructor Topics (50 min.)

(15 min.)

1. What is Business Planning?

- Common Questions About Business Planning
- The Importance of Planning and the Planning Cycle
- Who is Responsible for Planning?
- Feasibility Studies

(15 min.)

2. Business Plans

- Why Prepare a Business Plan?
- Using Your Business Plan
- Outline and Examples of a Business Plan

(20 min.)

3. Conducting Market Research

- What is a Market? What is Marketing?
- Industry Research



Guest Speaker (30 min.)

- Business librarian or marketing researcher

Break (30 min.)

- Refreshments
- Networking Activity

Work Hour (60 min.)

- Accessing research tools in the library
- Homework Review—Session 1
- Workbook Preview—Session 2 and optional additional reading assignments

Assignment for Session Three

WORKBOOK

Read and complete the worksheets in **Workbook Session 2**.

WRITE

Using the *Writing Your Plan* page at the end of **Workbook Session 2** as your guide, write **Section III. Background Information**.

TEXT

Read **Part IV: Legal Aspects of Your Business** (Chapters 14 through 20); **Part V: Managing Your Business** (Chapters 21 through 24); **Green Business Opportunities** (Chapter 10); and optional reading from **Part II: Entry and Growth Strategies** (Chapters 4 through 9) as assigned by the instructor.

Additional Instructor Notes

Session Two



NOTE: We suggest that all (or at least the last hour) of this class session be held in your local college, SBDC, or public library. Failing this, it would be advisable to have access to the Internet to demonstrate research techniques.

WHAT IS BUSINESS PLANNING?

Common Questions About Business Planning

Start the discussion by using the questions on **OHD 2-1**. You may want to divide the class into groups of three to five, with each group focusing on one of the questions. You can use any remaining questions to guide further discussion.

The Importance of Planning

Too often, planning is a reaction to a crucial event like seeking financing or buying a business. This is not sufficient when you're trying to start or grow a successful business. Planning requires constant attention—just like selling and bookkeeping—so it needs to be integrated into your day-to-day management practices.

Many entrepreneurs focus on the **product** of planning (i.e., a plan) rather than the **process**. Emphasize the importance of mastering the process, which students must use regularly as their business grows.

Focus on benefits to business owners who master the planning process. Stories about business owners who have obtained financing or expanded their business will get participants' attention. Discuss the importance of committing your thoughts about your business to paper.

The Planning Cycle

Use **OHD 2-2** to introduce and discuss the **planning cycle**.

- Plan a course of action for your business.
- Take action by making decisions that support the plan.
- Measure the results of the actions you took, and note any differences between the results you expected and the results you got.
- Explain results that varied from planned results. Note that you must do this whether the variance is positive or negative.
- Make improvements to the plan as a result of what you learned.

Emphasize that planning is a continuous process, and plans aren't carved in stone. They must change with circumstances.

Who is Responsible for Planning?

The business owner needs to be involved and ideally will lead the process. Discuss the disadvantages of having someone else write your business plan for you. Discuss the need for revisiting planning issues regularly as the business grows. Use evolving Internet technology, or green business trends and regulations, as examples of factors that can change business plans.

This is also a good time to introduce the concept of an **advisory board**, and explain how the planning process can be enhanced by the use of a group of outside experts.

Use **OHD 2-3** to explain the keys to a successful planning process. Note that sometimes, disappointing discoveries are made that lead to worthwhile (and sometimes business-saving) adjustments.

Feasibility Studies

In this class, “feasible” means **appropriate, affordable, and attainable**. To be feasible, a goal must be **appropriate** for you, your employees, and your customers. It must be **affordable**, in terms of your available capital and/or investment from cash flow. And it must be **attainable**, given your resources and the expertise of your personnel.

Basic feasibility study

Participants should conduct feasibility studies for any and all opportunities that involve substantial risk (e.g., new product lines; major purchases like solar water heaters; or important, lasting changes to the way you do business). Use **OHD 2-4** go over the components of a basic feasibility plan.

Advanced feasibility study

If the results of the basic feasibility study are positive, it's time to do more research. Use **OHD 2-5** and **OHD 2-6** to discuss elements of the advanced feasibility study.

This is a good place to note the importance of environmental and social feasibility to businesses that will be pursuing green and socially responsible goals.

Ask the questions: *What are some things that would not be feasible for a business that sells “American-made” goods? What are some things that would not be feasible for a green business?*

Whatever the answers, the point is the same: the ultimate test of feasibility is whether you're meeting customer needs and expectations. This applies to all businesses, not just green ones!

BUSINESS PLANS

Many entrepreneurs refuse to do a business plan until required to do so by a financial institution. This is a mistake! Understanding why and when to do a business plan, and how to use it, will help participants understand that the planning process is a managerial must, not just a requirement of financial institutions. Emphasize the direct effects on profitability.

Why Prepare a Business Plan?

Here's another good opportunity to have the class participate. Lead a brainstorming session to develop a list of reasons for having a business plan. Then, use **OHD 2-7** to summarize them.

Using Your Business Plan

Owners, managers, creditors, and investors each use and interpret business plans differently. Thus, a business plan should be prepared with the specific interests of the target reader in mind. For example, the business plan for a sustainable business would have to demonstrate not just that the business is sustainable in the environmental sense, but also in the traditional sense of meeting consumer needs, being well-managed, and earning a profit.

Discuss your participants' intended uses for their plans. How might the plans need to be changed for different audiences?

Outline of the NxLevel® Business Plan

Have participants turn to their *NxLevel® Business Plan Outline* in **WORKBOOK SESSION 1** and follow as you discuss. Spend time thoroughly reviewing the outline of a business plan, explaining the purpose of each section and how the information will be used to manage their businesses.

Use sample business plans to illustrate the various sections of a business plan.

CONDUCTING MARKET RESEARCH

What is a Market? What is Marketing?

A **market** is a group of people who are, or will be, your customers. **Market research** is the process by which you learn what these customers want, which products will satisfy those wants, how to reach them with information about your business, how much to charge, and so forth.

Marketing comprises three elements: market research; market analysis; and marketing strategies and tactics. The goal of these elements is to create the ideal **marketing mix** of the **Four Ps**: Product, Price, Promotion, and Placement. Use **OHD 2-8** to discuss the elements of marketing, **OHD 2-9** to discuss basic marketing tasks, and **OHD 2-10** to introduce some basic market research questions.

Stress that the more research you do now, the better chance you have of developing a realistic marketing plan later. Emphasize that market research proves market validity, which is a key point when trying to attract investors, get a bank loan, or just determine the initial feasibility of the business idea.

Industry Research

Explain what an industry is (a general group of businesses that includes companies of similar nature—give examples: McDonald's restaurants are part of the Fast Food industry; a daycare center is part of the Childcare industry; a ski shop is part of the Sporting Goods industry). Help participants categorize their businesses by industry.

Have participants look at **Section III** of the *NxLevel Business Plan Outline*. Their homework assignment will be to write the *Background Information* section, which explains the background of the industry, current and future trends, and how their business fits into the industry.

Explain that this section will be written after doing the appropriate research, which they will be starting this week. However, this research is an ongoing process. They may not find all the information they need in one week, which is why it is critical to start early.

Next, have participants quickly look at some of the questions in **WORKBOOK SESSION 2**, so they get a feel for the kind of information they will be seeking.

Primary and secondary data

Primary data are information that you collect firsthand (by asking people questions, for instance). **Secondary data** are information originally collected by other people. This would include information you find in magazines or on the Internet. Use **OHD 2-11** to highlight data sources.

Research tools and resources

Using **OHD 2-12**, discuss the research tools that will help them find the information they'll need to answer their industry questions.

Then, using the **Sources of Information Worksheet** in **WORKBOOK SESSION 2**, address the points below:

- **Ask the questions:** *How many of you belong to trade associations? What information do trade associations provide?* Discuss. Have the *Encyclopedia of Associations* reference book available (or copy a page out of it, if you choose not to be in the library for this class). Show what information that reference book provides, and where to find it in the library.
- Discuss industry magazines and Websites. They have highly specific information about particular industries, and can be great sources of trend information. Have sample magazines on hand, or show where to find them in the library.
- Discuss other research tools found in the library (the Internet, other reference books, etc.). Refer participants to the **Industry Information** section in **Tab 5** and **Library Resources** in **Tab 9** of their *NxLevel® Resource Guide*, and suggest that they try to find those sources in the library reference section.
- Briefly discuss other research tools and information-gathering methods, such as interviews, surveys, and focus groups. Remind them that if done correctly, these are powerful tools for small business.
- Remind students to keep notes on sources (authors' names, dates, publications, page numbers). They'll need to present these sources to lenders or investors.

Ask the question: *What conclusions do you think you are trying to draw by looking at your industry?* Use **OHD 2-13** to discuss.

Now, have participants quickly look at some of the questions on the **Background Information Worksheets** in **WORKBOOK SESSION 2**, so they can see that the information they will be seeking during the Work Hour directly relates to these conclusions. You may want to return to these worksheets later in the session.



Business librarian or market researcher

This session is designed to give students a head start on the research involved in formulating a marketing plan. While students will not yet know all of the items that need to be researched, they can at least start seeking industry information and contacting trade associations, which will save time when they get to the marketing sessions.

Your guest speaker should understand this, and relate his or her comments to research tools. Remind your guest speaker that these are small-business owners, who lack the resources of a large organization. Also, discuss ahead of time whether the guest speaker can help during the discussion topics in class.

Holding class in the library (or going to the library for the latter part of class) is a good way to reduce the uncertainty of inexperienced participants, and expand the knowledge of those who are familiar with modern library tools.

Prepare some questions that you'd like your guest speaker to address, and give the questions to your guest well in advance of class.

Suggestions for librarian:

- What references are available for industry data? Where are they?
- Besides the library, are there other local research facilities that may be useful?
- What special online tools does the library have (e.g., LexisNexis)?
- How can I find current articles about my industry?
- If I can't find the information I need, is there someone in the library who can help?

Suggestions for market researcher:

- How do I know what I need to find out?
- Are there any tips you can share that will make market research easier, or more fun?
- Finding national data and trend information is easier than finding local information. Do you have any suggestions?
- I'm inventing a totally new product, so there is no research available. What do I do?
- How does market research fit into the marketing plan?

WORK HOUR SUGGESTIONS

Accessing Research Tools In The Library

If you have the ability to hold class in the library, use the Work Hour to begin finding industry information. Consider dividing the group into smaller groups: those who need a general tour of the library, those who are somewhat familiar with the library but need to know the reference section better, and those who are familiar enough with the library to begin working on research.

Ask the library staff to give tours of the library and familiarize students with the research tools. In the reference book section, locate some of the more familiar research information resources, such as the *Small Business Sourcebook*, *Survey of Current Business*, *Thomas Registers*, and other business references.

If students are unfamiliar with whatever online capabilities your library has, use this time to let them learn how to access relevant information on the library computers. Again, ask the reference or information librarian to assist, if appropriate. Be sure to stress the difference in credibility between statistical data and statements of opinion found in articles and op-eds.

Option: If you can't hold class in a library, bring sample research tools to class (or copies of pages out of some of the reference books cited). Also, consider bringing in a computer and showing Internet research tools and methods (or have your local Internet expert conduct a special demonstration).

Homework Review

Have several participants read their mission statements out loud, and discuss. Ask what challenges participants faced while trying to develop goals and objectives. Remind them of the critical importance of having goals, but note that these goals may need to be modified as the business plan progresses.

Workbook Preview—Session 2

Emphasize again the importance of starting market research *now*.

Review the **Action Log Worksheet** in **WORKBOOK SESSION 2**. Suggest that students make several copies of this worksheet, and head one sheet *Personal* and one *Business*. Encourage them to keep these worksheets out during class, so they can write down ideas and action items as they come up.

Review the Assignment for Session 3

Make sure participants understand the reading and writing assignment. Again, review the *Writing Your Plan* section at the end of **WORKBOOK SESSION 2**, and show how the section they will be working on fits into the whole plan. (You can also refer back to the *NxLevel® Business Plan Outline* in **WORKBOOK SESSION 1**, and highlight the written assignment.)

Also, have participants look at *Section III. Background Information* in the *NxLevel® Sample Business Plans*. (Referring back to the sample plans helps visual learners.)

Explain the Optional Additional Reading Assignment

Part II: Entry and Growth Strategies (Chapters 4 through 10) may not apply to all participants. Assign specific chapters as appropriate, depending on the phase of development and business type of each participant.



NOTE: We strongly recommend that you assign **Chapter 10 Green Business Opportunities** to all students. Even if they don't have plans to offer green products, their competitors may, which means that participants will need to understand these issues and opportunities.

OVERHEADS AND HANDOUTS FOR SESSION TWO

OHD	2-1	Questions About Business Planning
OHD	2-2	The Planning Cycle
OHD	2-3	Keys to a Successful Planning Process
OHD	2-4	Basic Feasibility Study
OHD	2-5	Advanced Feasibility Study
OHD	2-6	Advanced Feasibility Study—continued
OHD	2-7	Ten Reasons to Prepare a Business Plan
OHD	2-8	Elements of Marketing
OHD	2-9	Basic Marketing Tasks
OHD	2-10	Market Research Questions
OHD	2-11	Primary and Secondary Data Sources
OHD	2-12	Research Tools
OHD	2-13	Drawing Industry Conclusions

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION TWO



- Articles on the importance of business planning
- Articles on the importance of knowing your industry
- Sample trade association publications or trade magazines

You have the option of finding these articles/publications for use in class, or asking students to search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes below.

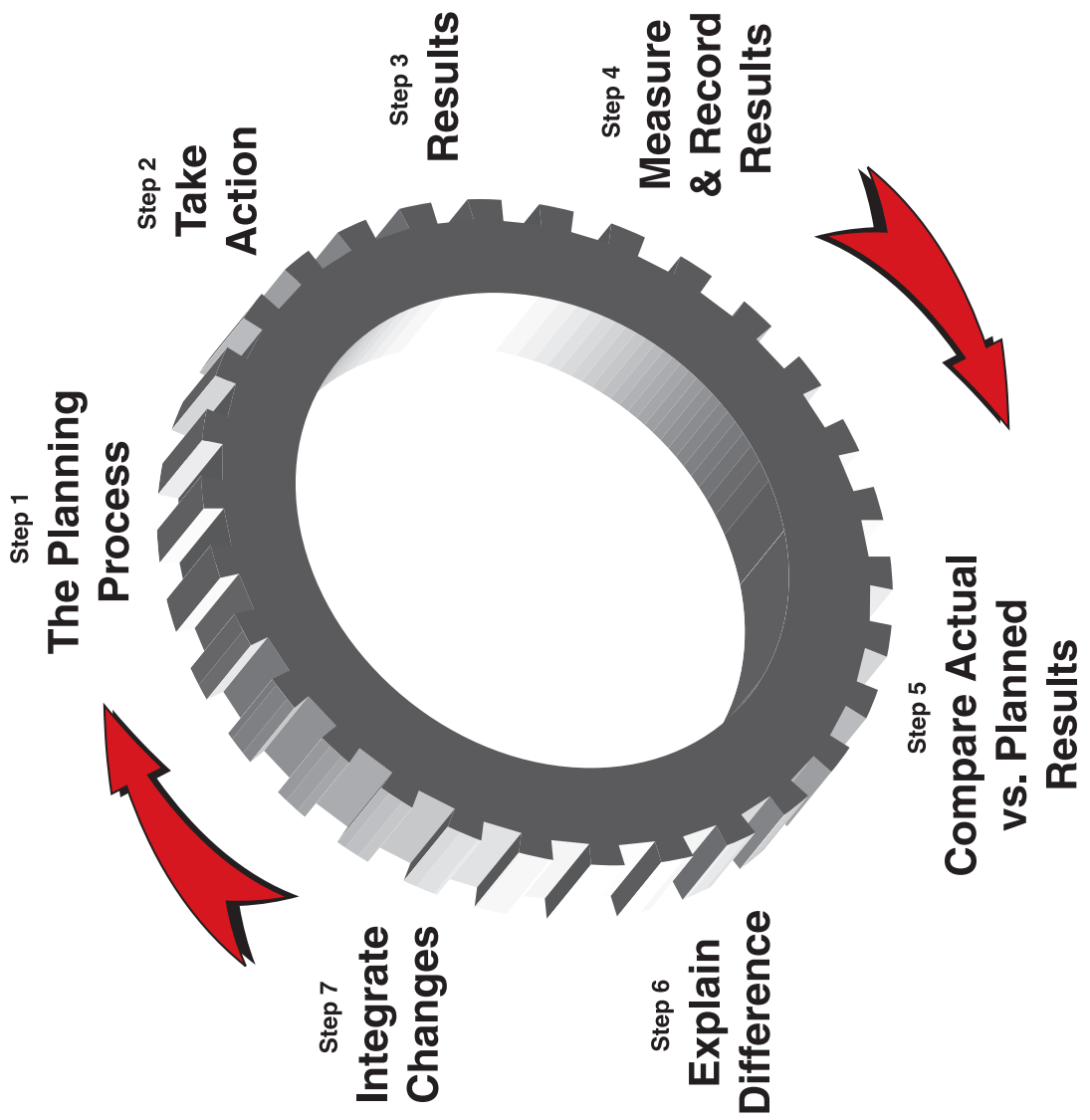
Supplemental materials used for Session Two

Notes

Questions About Business Planning

- ◆ **Is planning really necessary for a small business like mine?**
- ◆ **How does planning affect my bottom line?**
- ◆ **Why do lenders and investors care about business plans?**
- ◆ **Should I hire someone to handle the planning process for me?**
- ◆ **How can I make plans when everything's so uncertain?**
- ◆ **How often is planning necessary?**
- ◆ **What if I don't complete the process?**

The Planning Cycle



Keys to a Successful Planning Process

- ◆ **The owner assumes the lead in the process**
- ◆ **The planning process involves everyone in the family and business**
- ◆ **The plan reflects reality**
- ◆ **There is a contingency plan for the worst-case scenario**
- ◆ **The goals and objectives are achievable and clear**
- ◆ **The plan is flexible**
- ◆ **The plan is used to run your business, reviewed often, and revised when necessary**

Basic Feasibility Study

SCOPE:

- **What is the business opportunity?**
- **What is the purpose? What are your goals?**
- **What are the features and benefits?**

SWOT ANALYSIS (Strengths, Weaknesses, Opportunities, Threats):

- **Your business**
- **Your industry**
- **Your target market**
- **Your competition**

FINANCIAL FEASIBILITY:

- **What are your capital requirements?**
- **Do you need outside funding?**
- **Why will your idea be profitable?**
- **When will you reach your break-even point?**
- **What rate of return do you expect?**

FEASIBILITY OF SALES VOLUME:

- **How, when, and where will you generate revenue?**
- **How much will it generate?**
- **Why are these projections realistic?**

Advanced Feasibility Study

MARKETING FEASIBILITY:

- **How will you communicate with customers?**
- **Why, when, how, where, and how much will they buy?**
- **What price will they pay?**
- **What price, promotion, and placement strategies will you use?**

FEASIBILITY OF PERSONNEL:

- **Do you have the right mix of personnel, with the right training?**
- **Have they bought into the business idea?**
- **What functions will be outsourced?**

LOGISTICAL FEASIBILITY:

- **What are your product and performance specifications? How will you ensure that they are met?**
- **Can you get enough of the supplies and materials you need? What's the turnaround time?**
- **Is your supply chain adequate?**
- **Do you have the equipment you need?**

Advanced Feasibility Study— continued

LEGAL FEASIBILITY:

- **Does the idea meet local, state, and federal, and (if necessary) international regulations?**
- **Do you need to protect intellectual property?**
- **What contracts and leases are required?**

ENVIRONMENTAL FEASIBILITY:

- **Will implementing the concept reduce, reverse, or offset environmental damage?**
- **What is the environmental impact of resource extraction, manufacturing, storage, shipping, consumer use, and disposal?**
- **Can you reduce external costs and increase external benefits?**

SOCIAL FEASIBILITY:

- **How does each aspect of your product and your business affect workers, neighbors, and communities at home and abroad?**
- **Can you reduce external costs and increase external benefits?**

Ten Reasons to Prepare a Business Plan

- **Forces you to look at the whole business**
- **Focuses attention on important issues**
- **Guides adaptation and innovation**
- **Helps to clarify and communicate your goals and objectives**
- **Provides a means of assigning priorities**
- **Provides a framework for daily decision-making and better management**
- **Helps maintain a proactive business attitude**
- **Serves as a benchmark to track performance**
- **Stimulates development of new and emerging business opportunities**
- **Helps you to access capital, acquire business partners, and attract employees**
- **Increases your chance of success**

Elements of Marketing

Market Research

- **Industry**
- **Customer**
- **Competition**
- **Location**

Market Analysis

- **Analyze your research about the industry, customer, competition, and location**
- **Define your competitive advantage**

Marketing Strategies and Tactics

- **Determine the best method of getting your goods to market, based on your analysis**

The Four Ps

- **Product**
- **Price**
- **Promotion**
- **Placement**

Basic Marketing Tasks

Marketing comprises these basic steps:

- 1. Determine what people want**
- 2. Find or create products that satisfy their wants**
- 3. Select the most effective means of communicating with people about the product and its benefits**
- 4. Develop strategies that will create a desire for the product in prospective customers who have not actively expressed their wants**

Market Research Questions

- ◆ **Who are your customers?**
- ◆ **What do they want and need?**
- ◆ **Where do they live, work, and shop?**
- ◆ **How do they buy (e.g., online or offline, cash or credit)?**
- ◆ **When do they buy (seasonality)?**
- ◆ **Why do they buy in general?
Why will they buy from you?**
- ◆ **How often do they buy (daily, weekly, monthly, annually, sporadically)?**
- ◆ **How much do they buy? How much will they pay?**

Primary and Secondary Data Sources

PRIMARY:

- **Interviews (in person or over phone)**
- **Surveys (online, mail, or phone)**
- **Focus groups**

SECONDARY:

- **Government (federal, state, local)**
- **Small Business Development Centers**
- **Women's Business Centers**
- **US Small Business Administration**
- **Trade and industry associations**
- **Chambers of Commerce**
- **Local newspapers and business magazines**
- **Census data**

Research Tools

- **Libraries (public, private, university/college, online/offline)**
- **Trade associations**
- **Business periodicals and Websites**
- **State and federal resources**
- **Local resources (Chambers of Commerce, SBDCs, WBCs, BICs)**
- **Professional research companies**
- ***NxLevel[®] Business Resource Guide***
- **Studying the competition**
- **Surveys (focus groups and interviews)**
- **Social networking sites**
- **Observation**

Drawing Industry Conclusions

- **How has the industry developed?**
- **How do small businesses operate within this industry?**
- **What are the current growth patterns in the industry?**
- **What is the industry's size at present?
What's projected a year from now?
Five years from now?**
- **Are there any niche markets that are hot (e.g., green/sustainable business)?**
- **How does international trade affect your industry?**
- **How will current and new government regulations affect your industry?**
- **How will new and emerging technology affect your industry?**

Learning Objectives

- Understand how to select the right legal structure
- Become aware of legal issues facing small businesses, and where to find help
- Understand business insurance, continuity planning, and other risk management needs, and weigh options
- Identify internal and external management team members
- Understand the importance of improving team-building, motivation, and management skills
- Understand the pros and cons of outsourcing

Organizational Matters: Management and Legal Structure Session Three

Date: _____

Due: Section III: _____

Background Information _____

Class Opener

Instructor Topics

1. The Legal Structure of Your Business
2. Government Regulations and Taxes
3. Other Legal Issues and Risk Management



Guest Speaker

Break

- Refreshments
- Networking Activity

4. Developing the Management Team
5. Employee Relations
6. Pros and Cons of Outsourcing

Work Hour

Assignment for Session Four

WORKBOOK Read and complete worksheets in **Workbook Session 3**.

WRITE Using the *Writing Your Plan* page at the end of **Workbook Session 3** as your guide, write **Section IV. Organizational Matters—Part A. Business Structure, Management, and Personnel**.

TEXT Read **The Marketing Plan** (Chapter 25); **Market Objectives, Strategies, and Tactics** (Chapter 27); **Product** (Chapter 28); and **Placement** (Chapter 31). Review **A Customer-Driven Philosophy** (Chapter 2).

Learning Objectives

- Understand how to select the right legal structure
- Become aware of legal issues facing small businesses, and where to find help
- Understand business insurance, continuity planning, and other risk management needs, and weigh options
- Identify internal and external management team members
- Understand the importance of improving team-building, motivation, and management skills
- Understand the pros and cons of outsourcing

Organizational Matters: Management & Legal Structure Session Three

Date: _____

Due: Section III: _____

Background Information _____

Class Opener (10 min.)

Articles of interest, best / worst news, brain teaser, etc., or see the exercise *Sharing Research Resources*.

Instructor Topics (50 min.)

- (15 min.) 1. The Legal Structure of Your Business
- (20 min.) 2. Government Regulations and Taxes
- (15 min.) 3. Other Legal Issues and Risk Management



Guest Speaker (30 min.)

- Small-business attorney or insurance agent

Break (30 min.)

- Refreshments
- Networking Activity

Instructor Topics—continued (20 min.)

- (15 min.) 4. Developing the Management Team
- (5 min.) 5. Employee Relations and Outsourcing

Work Hour (40 min.)

- Discussion Group—*You and Your Team* or *Risk Management*
- Homework Review—Workbook Session 2—*Background Information*
- Workbook Preview—Session 3

Assignment for Session Four

WORKBOOK

Read and complete worksheets in **Workbook Session 3**.

WRITE

Using the *Writing Your Plan* page at the end of **Workbook Session 3** as your guide, write **Section IV. Organizational Matters—Part A. Business Structure, Management, and Personnel**.

TEXT

Read **The Marketing Plan** (Chapter 25); **Market Objectives, Strategies, and Tactics** (Chapter 27); **Product** (Chapter 28); and **Placement** (Chapter 31). Review **A Customer-Driven Philosophy** (Chapter 2).

CLASS OPENER—SHARING RESEARCH RESOURCES

As participants enter, have each of them write one research resource they found (and where they found it) on a flip chart or board. Also, encourage participants to write down the shared resource information for their own future use.

Ask the question: *Did any of you learn anything interesting or surprising about your industry?* Discuss.

Remind participants to use the *NxLevel® Resource Guide*.

THE LEGAL STRUCTURE OF YOUR BUSINESS

The legal structure you choose for your business affects tax and accounting issues. Therefore, you must seek help from your attorney and accountant before finalizing your decision. Also, if your business situation changes, you may need to change your legal structure in response.

Use **OHD 3-1** through **3-6** to highlight the advantages and disadvantages of each legal structure. (Add **OHD 3-7** if you need to discuss **cooperatives**.)

Sole Proprietorship

- You and the business are one and the same
- All business profits pass directly to you
- You are personally responsible for all business liabilities and debts

General Partnership

- Two or more people are involved
- Death of a partner terminates the partnership
- Partners share capital, earnings, losses
- Partners are taxed as individuals—the Partnership Return is for information only
- Buy-Sell Agreements for exiting are encouraged

Limited Partnership

- General Partner and Limited Partner status
- Limited partners have limited liability and limited obligations
- Profit / loss distribution is specified by the partnership agreement
- Limited partners must not be involved in management

Corporations

- The business and the owner are separate legal entities
- Corporation has a life independent of the owners
- Steps to incorporate are different in each state

S Corporation

- The S designation refers to subchapter S of the IRS tax code.
- This is NOT a separate legal form of organization—it is a tax election
- The primary difference between a regular corporation and an S Corporation is the IRS tax treatment: tax is passed back to the shareholders like a partnership
- Eligibility requirements for S election:
 - Limit to the number and types of shareholders (check current legislation)
 - No non-resident aliens or foreign trusts as stockholders
 - No more than 25 percent of gross income may come from passive sources (interests, rents, royalties)
 - File Form 2553
 - You can change from an S Corporation to a corporation only once
 - Corporation can issue common stock only, no preferred stock

How a corporation works

- A corporation is a separate entity (as the owner, you're its employee)
- A corporation may have one shareholder who can also serve as the board of directors, hold all offices, and even be the only employee
- Shareholders elect the board, so majority has power
- The board appoints the officers, declares dividends (if any), and sets policy for the company
- The officers handle day-to-day affairs (i.e., hiring and firing employees, signing checks, and other daily management decisions)

A corporation is formed by:

- Filing Articles of Incorporation with the appropriate state agency
- Adopting bylaws
- Holding organizational meeting
- Issuing stock
- Receiving capital from shareholders

A corporation remains legally active by:

- Filing its own tax return
- Filing annual report with the appropriate state agency
- Holding and documenting an annual meeting of shareholders and directors
- Maintaining some equity capital in the company

Limited Liability Company (LLC)

- Relatively new form of organization, therefore not much case law
- Limits liability like a corporation, but taxed and run like a partnership
- Similar to forming a limited partnership
- Must file Articles of Organization with the Secretary of State
- Must have an Operating Agreement

GOVERNMENT REGULATIONS (SEE OHD/HANDOUTS 3-8 AND 3-9)



NOTE: Instructors have the responsibility of sorting out the following information, and deciding which topics need to be discussed in depth. You are encouraged to customize this class session to the needs of your students. **You will not have time to discuss each of these topics in depth, so choose based on your participants' needs.**

General Business Taxation Regulations

- **Personal and business income tax.** Federal, state, and local governments all have the power to collect taxes. Discuss your state and local taxation structure.
- **Sales tax.** Some businesses must be registered with state or local tax collection agencies. Explain the difference between sales tax and use tax. Discuss the specific requirements within your state.
- **Property tax.** Check out business property before you purchase, because some areas of town are taxed much higher than others. By contrast, enterprise zones offer tax and other incentives for business owners. You should also check into property tax (real estate) and business property tax (tax on furniture, fixtures, and equipment used in the business).
- **Business license fees.** Local jurisdictions can “tax” your business under a system of license fees. Consult with state and local agencies to determine which fees apply.

Employee Regulations

Many government regulations can affect your dealings with employees. Local offices can help you determine correct procedures. Recognize that regulations exist regarding hiring, firing, insuring employee safety, and avoiding discrimination.

- **Payroll tax and withholding.** Discuss FICA, FUTA and other state and local payroll taxes, including methods of payment (refer to the **TEXT** if you are not familiar with this topic). A major point to emphasize: **Do not skip or be late in making payroll tax deposits!** This is a common mistake among start-up businesses, who often think that other bills can be paid first when cash is short. Federal and State taxes must be paid, and must be paid on time.
- **Employees vs. independent contractors.** Discuss the issue of determining who is an independent contractor versus an employee. Use **OHD/Handout 3-10** and your own state's laws regarding independent contractors to explain the difference. Trying to avoid payroll taxes by calling a worker an independent contractor is potentially very dangerous.

- **Wage and hour regulations.** Discuss minimum wage regulations. Discuss regulations specific to the type of employees required in different businesses.
- **Hiring regulations.** Briefly discuss federal nondiscrimination regulations. Discuss the interview process, and what types of questions to avoid when interviewing. Are there any hiring regulations specific to your area?
- **OSHA.** Discuss federal OSHA regulations that pertain to the types of businesses represented in your class. Also discuss any state OSHA-like agencies, and the impact those regulations have on businesses.
- **Other employee-related regulations.** Depending on your class configuration, you could also choose to discuss harassment regulations, the American with Disabilities Act, organized labor laws, family leave regulations, and any regulations specific to businesses represented in class.

Consumer Protection Regulations

Consult local and/or official Internet resources for compliance assistance with the following:

- **False advertising.** The Federal Trade Commission (FTC) Act states that advertisements must be truthful, fair, and non-deceptive, and requires advertisers to back up their claims with evidence. The FTC looks at both express and implied claims. Consider a company that makes a “100%-natural” product. The **express claim** is that the product is natural. The **implied claim** is that being “natural” confers some health benefit (arsenic is natural, but you wouldn’t want to eat it). The FTC also looks at what the ads *don’t* say. If a company advertised a “solar lamp,” without revealing that the lamp needed to be plugged in to work, that would probably be considered deceptive.
- **Unlawful trade practices.** Most states have “fair dealing” statutes and other laws similar to those of the FTC. Your state Department of Commerce will have information on these laws.
- **Telemarketing and spam.** There are strict federal regulations governing telemarketing and commercial e-mails, which all businesses must observe. Most states also restrict telephone solicitations and e-mails in a variety of ways. Legal advice is recommended before engaging in telemarketing or mass commercial e-mailing. The **TEXT** describes these issues at length.
- **Consumer privacy.** Many laws regulate the use and storage of personal data submitted online. Since e-commerce typically happens across state lines, the laws regarding data collection in a customer’s state can affect your business. This is a complex area, but as an example, you can cite the Children’s Online Privacy Protection Act, which requires commercial Websites and online services to obtain parental consent before collecting, using, or disclosing personal information from children aged 13 and younger.
- **Warranties.** Discuss federal minimum requirements for written warranties. Are there any state requirements?
- **Uniform Consumer Credit Code.** Many states have adopted the Uniform Consumer Credit Code, which establishes a uniform system of regulations for consumer credit contracts and usury, which is the legal rate of interest.

Commerce Regulations

- **Professional licenses.** You should know which agency in your state handles license issuance (it's usually the Department of Commerce). Refer to the *NxLevel® Business Resource Guide* for additional licensing and registration information.
- **Business registration.** Discuss what needs to be registered, including business name, tradename, and trademark or service mark. Discuss other licensing or registration that may be required, including filing for incorporation; licensing financial, real estate, and insurance businesses; sales tax registration; and workers' compensation registration.
- **Uniform Commercial Code (UCC).** Discuss what the UCC regulates (bills of lading, warehouse receipts, letters of credit, bank interactions, etc.). Almost every business encounters the UCC every day, but most don't realize it. Suggest that your students review the regulations that are applicable to their business.

Zoning Regulations

Ask the questions: *Who do zoning regulations affect? How?* Discuss the responses and refer to appropriate local resources for assistance.

Bankruptcy Regulations

Understanding bankruptcy is important from the ownership side of the business, and also when dealing with suppliers and customers who are involved in bankruptcy proceedings.

Discuss how changes to bankruptcy law affect small-business owners. The short explanation is that it's harder to get bankruptcy protection than it used to be, and those protections don't go as far as they used to. Participants should understand that bankruptcy won't wipe the slate clean: many debts can't be discharged through bankruptcy, including tax debts.

Transportation and Shipping Regulations

There are many rules about what you can transport, how you can transport it, and where it can go. Some of these have to do with national security concerns, and may have been created or strengthened in the wake of the terrorist attacks of September 11, 2001. Others have to do with agriculture; hazardous materials transport; alcohol, tobacco, and firearms; and so forth.

The USPS has rules with which you should become familiar, as do commercial carriers like UPS and FedEx. If you're shipping or receiving goods internationally, you're subject to many more regulations. Your carrier can help you make sense of these rules.

Environmental Regulations

Increased pressure is being placed on business to comply with environmental regulations, both by customers and government. Many old laws are in flux, and many new ones are being proposed. Bear in mind that you don't have to be transporting high explosives to be regulated under environmental laws! Things like batteries, oil, and certain cleaning supplies and solvents legally count as hazardous materials, too.

Some participants will have strong opinions for or against these regulations, and can easily sidetrack the class if allowed to express them at length.

NxLevel's position is that while individual business owners should work to support whatever policies they believe in, business success requires an ability to assess market conditions **as they are**, and look for the profitable opportunities that always arise in times of change, while complying fully with the law.

Since that's the focus of this class, any editorializing should be politely but firmly discouraged. Change—both good and bad—is inevitable. The emphasis here is on learning skills that will increase your chance of success in whatever sort of market you face. (Note that a business owner who can only function in a familiar, stable market is not likely to succeed in the long run!)

It may be harder to do things the right way—e.g., to dispose of hazardous waste legally, instead of dumping it in the creek—but you can offset this expense by making environmental ethics and pollution prevention part of your brand identity, which can lead to more sales, better public relations, and less government oversight. Also, consider what happens if you won't do these things, but your competitors will. They may end up with a strong competitive edge.

With all this in mind, briefly discuss which of the following regulations impact the businesses represented in this class, and where additional information regarding compliance costs and benefits can be found.

- Hazardous materials handling, storage, and disposal (CERCLA and RCRA)
- Petroleum storage
- Wetlands regulations
- Endangered Species Act
- Water rights
- Extended producer responsibility laws (e.g., takeback programs)
- Department of Environmental Quality (DEQ) regulations



NOTE: The **TEXT** contains an overview of these laws that was accurate at the time of writing. However, federal laws are subject to change, and local and state laws can vary greatly from the federal standard. We advise you to research the most current information before teaching the class, and to explain the importance of getting accurate information and professional help when dealing with environmental regulations.

OTHER LEGAL ISSUES AND RISK MANAGEMENT



NOTE: A very short time has been allotted to the remaining topics in this session. These notes exist so that you can pick topics on which to focus (based on your participants' experience level) or simply review all the key points and move on. The overheads for these sections are designed to help you cover topics quickly.

Contracts

To be legally binding, a contract must contain the following four elements:

- **Mutual assent** (offer and acceptance)
- **Consideration** (an exchange of value)
- **Capacity** (parties must be mentally capable of understanding the contract)
- **Legality** (actions specified by contract must be legal)

A contract can either be express or implied. An **express contract** is stated in words (preferably in writing), while an **implied contract** is demonstrated by conduct.

Although oral contracts can be legally binding, enforcing them can be very difficult. Some contracts must be in writing by law (e.g., real estate contracts), but NxLevel's position is that **all contracts should be in writing to protect the interests of both parties**.

Next, we'll discuss common contract terms (see **OHD 3-11**).

- **Performance.** What actions must you complete under the contract?
- **Price.** How many units, at what price, in what currency?
- **Place of delivery.** Where are the goods to be delivered? Who pays for shipment? Who bears the risk of loss while the goods are in transit?
- **Time to perform.** When must goods be delivered or services performed? When is payment due?
- **Legal remedies.** What happens when someone breaches a contract? Discuss liquidated damages, arbitration and mediation, professional fees and expenses, and specific performance.

The **TEXT** contains many more terms than you'll be able to address. Emphasize that this makes it a valuable resource. The aim of this session isn't to make each participant an expert in contract law, but to make all of them understand that every word in a contract has a legal meaning. Don't ever sign a contract unless you understand the terms, and how they affect you. Small print, or **boilerplate**, can have huge consequences. The help of a lawyer, or a legal aid service, is essential.

Ask the question: *What types of contracts do you expect to deal with in your business?* Look at the list, and have participants make notes regarding which ones they might use. Discuss requirements for preparing, getting help from an attorney, and so on.

How to help your lawyer review or write your contract

- Start with a professionally prepared standard form. (See your *NxLevel® Business Resource Guide*, paper or software templates at office supply stores, or downloadable forms online.) Review for content.
- Write out the terms of the deal as you understand them **before** going to the lawyer.
- Adapt the standard forms to reflect your specific circumstances and industry terms.
- Have your attorney check the completed form to make sure there are no errors, omissions, or other problems.

Leases

Leases are one of the most common business contracts. They generally involve long-term relationships, and often represent one of your largest fixed costs.

There is no such thing as a “standard lease.” Everything in a lease is subject to negotiation, so all points of a lease should be carefully developed and carefully read. Have your attorney and/or tax accountant review all leases before you sign them (as **lessee**) or present them (as **lessor**).

Leases must contain beginning and ending dates, monthly lease amount, and total rent due for the term of the lease. If these elements are not present, it may legally convert to a month-to-month rental agreement.

Use **OHD 3-12** to discuss the common elements found in a lease agreement. Here are some additional terms you should be familiar with:

- **Triple net lease.** Tenant pays rent plus taxes, insurance, utilities, and maintenance.
- **Tenant rights.** If tenant has a problem and notifies the landlord in writing, the landlord must respond and correct within 14 days or tenant may terminate the lease.
- **Common area maintenance costs.** Often added on to the lease agreement in malls or shopping centers as the tenant’s responsibility to pay.
- **Green lease.** This is a lease of office or warehouse space in a building that meets (or will be upgraded to meet) formal standards for sustainability, water efficiency, energy use, and/or indoor environmental quality. The landlord and tenant must arrive at an equitable arrangement in which both parties maintain and share the benefits of green design and building practices.

Intellectual Property

Use **OHD 3-13** to discuss intellectual property.

Ask the question: *Who has intellectual property that needs protection? Why?* Then, lead a discussion about how to protect it, and the practicality of enforcing the protection.

Example: How practical is it to spend \$10,000 on a patent which would cost \$50,000 to \$100,000 to defend in court if someone copied your product? (There is no “right” answer here. It depends on the product and the people involved, but it certainly is something to think about.)

How to protect intellectual property

- State and federal registry (see your *NxLevel® Resource Guide*)
- Contracts
 - Trade secret agreements with employees
 - Non-disclosure agreements with outsiders who receive your trade secrets with your consent
 - Ownership agreements with employees defining who owns the ideas, processes and inventions made during employment
- Lawsuit for unlawful infringement
 - Expensive and hard to prove
 - Remedies: damages and injuries
- Non-competition agreements
 - Former employees or owners
 - Limited in time and area
- Foreign Trade
 - Some countries do not protect our intellectual property
 - Legal system may be different and difficult

Risk Management

Exercise: Note that business owners must plan for the worst-case scenarios as well as the best. **Ask the question:** *What are some of the worst things that could happen to your business?* Log responses on a flip chart or board, then discuss the type of insurance that might come to play for each scenario:

- The business is destroyed by fire, earthquake, tornado, or flood, and it takes ten months to rebuild. (*Business Property Insurance; Business Interruption Insurance*)
- The owner is killed or disabled. (*Key-Person Life Insurance*)
- An employee is drunk, gets in an accident in a company vehicle, and injures someone. (*General Liability Insurance*)
- A partner in a partnership dies suddenly, and the heirs request immediate payment of his/her portion of the business. (*Life Insurance tied to a Buy/Sell Agreement*)
- One of your truck drivers falls asleep at the wheel and totals the truck, destroying all your cargo. (*Business Auto Insurance*)
- An employee is injured on the job and becomes permanently disabled. (*Workers' Compensation*)

Whatever type of business you choose, you will face many risks. Managing those risks is your task, and finding the right agents to help you is essential.

Ask the questions: *What insurance do you need? How do you know?* Use **OHD 3-14** and **3-15** to discuss types of insurance.

Here are some points to emphasize. See the **TEXT** for additional information.

- Use qualified advisors and agents to help mitigate risk (accountants, lawyers, insurance agents, bankers, technical assistance providers).
- The importance of Operating Agreements and Bylaws.
- Buy-Sell Agreements. **Ask the question:** *How can these agreements help mitigate risk?*
- How to find the right insurance agent (quality of references, range of services offered, agent's personality, cost, timeliness of agent's response, etc.).

The ***Types of Insurance Worksheet*** in **WORKBOOK SESSION 3** asks participants to work through the various types of insurance they need. Emphasize that seeking advice and competitive quotes from qualified professionals is critical. Also, reviewing insurance coverage is often necessary as the business changes or grows.

Continuity Planning

Continuity planning means preparing your business for disasters and disruptions, in order to minimize downtime and restore critical business functions as soon as possible.

No business is too small to benefit from a continuity plan. Statistics show that many small businesses fail to survive relatively minor and common disasters like building fires and floods. Businesses that have a plan in place stand a much better chance of getting back on their feet when the smoke clears.

If time allows, use **OHD 3-16** to introduce the steps involved in continuity planning.

Operating Controls—Other Ways to Manage Risk

Ask the questions: *What are we referring to when we start talking about Operating Controls? How can Operating Controls help mitigate risk? Discuss.*

Explain how a very small business can set up controls for various business functions without hiring additional personnel. (An example would be having an accountant responsible for monitoring the recordkeeping functions relating to income tax and payroll.)

Ask the question: *What are the potential negative consequences of having one person control everything?*

The ***Other Risks Worksheet*** should be reviewed during the Work Hour to illustrate other areas where defined controls may be essential to the day-to-day operation of the business. Consider discussing some specific examples of necessary controls for businesses represented in your class.

Estate Planning and Business Succession

Suppose an entrepreneur works hard to create a successful business that can be passed on to his or her children. But no plans are in place to help the family survive financially in the event of the entrepreneur's death. There's no key-person life insurance, no provision for payment of estate taxes, and no money for the surviving spouse to live on while assets are in probate.

This happens every day, and it's precisely what estate planning and business succession plans are designed to prevent. The key is to discuss the issues (difficult and often uncomfortable as they are) **before** a disaster happens.

Objectives of estate planning

- Providing your future support
- Providing for payment of taxes
- Planning for transfer of the business to the next generation or a third party

Start planning process with a legal will

- Plan for taxes
- Consider trusts
- What is probate?

Succession planning (see OHD 3-17)

- Are family members capable of running the business?
- Can family members work together?
- Do family members actually want the business?

Gifting interest in your business

- Annual gift limit per person (\$13,000 as of 2009)
- Possible loss of control

Retirement plans

- SEP
- 401K
- Pension and Profit Sharing
- Transfer of stock / ESOPs

Conclude the discussion of risk by distributing **OHD/Handouts 3-18** and **3-19**.



Small-business attorney

Prepare some questions that you would like your guest speaker to address, and give them to your guest well in advance of class.

Suggestions:

- What are some of the most common legal problems entrepreneurs face?
- How would you help a small business choose the right legal structure?
- What, from your vantage point, is the biggest cause of small-business failure?
- Are there any new things on the legal horizon that may affect small business?
- What questions should an entrepreneur ask when hiring an attorney?
- How would you suggest finding the right small-business attorney?
- What materials can entrepreneurs prepare ahead of office visits to reduce costs?
- What can the entrepreneur expect to pay for legal fees?
- What advice would you give to the new entrepreneurial employer?
- How do you feel about employee policy manuals?

Insurance agent

Ideally, this should be an insurance agent who has worked with small businesses in a variety of industries. Be sure to let the group ask questions specific to their businesses!

Suggestions:

- What is the most frequent question asked about insurance by the new entrepreneur?
- Is there a standard package of insurance that every business owner needs?
- What is the biggest risk to be managed in small business?

DEVELOPING THE MANAGEMENT TEAM

As your business grows, neither high energy nor innovative products are enough to sustain your success. That's why you must make a deliberate effort to create structures and processes that will maintain consistent performance through changing business conditions.

Use **OHD 3-20** to discuss leadership tips for effective managers.

Even entrepreneurs with no hired employees need to understand that they must take an organized, responsible approach to managing their businesses. They will still need the support and assistance of outside team members who can provide specialized help. We will discuss outsourcing in more depth later.

Setting Guidelines

A manager's most important function is to set guidelines for the business as a whole. To do this, the manager must analyze each element of the business, and put structures in place that will help accomplish tasks.

You should emphasize these points:

- The first management step is setting goals and developing strategies. What is the most important thing you should be doing today? Tomorrow?
- Create structures to enhance, not confine. Discuss trends regarding using employees vs. independent contractors. The first step in creating the structure is identifying the activities or core functions of the business. Discuss **organizational charts** (see **OHD/Handouts 3-21** and **3-22**).
- Understand that defining and allocating responsibility builds the internal strength of an organization. It also requires the entrepreneur to let go of some of the work, which is sometimes a difficult decision to make and to execute.
- Model good behavior! Employees, customers, and business partners will usually treat you the way you treat them. If you don't tell them the truth, they won't be honest with you. If you don't take responsibility for your actions, they won't either. If you're not open to new ideas, they won't make suggestions. Your everyday behavior has an enormous influence on their loyalty and morale.

Building a Team

A leader creates an environment in which teams can thrive, and influences team members to contribute willingly and fully. This is the cornerstone of a successful company. Because they integrate a variety of skills and personalities, teams generate ideas and solutions that are greater than the sum of their parts.

The team can be made up of insiders (employees and yourself) and outsiders (external professionals). It can even be a **virtual team**, comprising people in different towns or countries, who communicate and collaborate via VoIP, teleconferencing, e-mail, and so forth.

WORKBOOK SESSION 3 asks participants to consider the composition of their internal management team, and their external team members (Advisory Board, consultants, independent contractors).

Communication is the key

One of the biggest challenges for the entrepreneur is to build a team with a clear understanding of the objectives of the business. Planning for the future and growth strategies must be clearly communicated to move the entire team in the right direction.

The goal is to create a management team that can cooperate to achieve shared objectives, contribute unique strengths, innovate, and share in the rewards.

- Team development takes time and patience. Work hard at good communication and clear goals. Studies show that goals that are ambitious but attainable often lead to better performance from team members.
- There must be a forum for communication. Decide what that is (weekly meetings, individual time with key managers, social networking tools like Twitter, etc.).
- Create a climate of shared responsibility within your team. In order to reap the rewards, every member of the team must perform. If any member does not, it is the responsibility of the entire group to assess the difficulty and remedy it.
- Don't exclude your External Team from your communications. Take time to visit with your attorney, your accountant, and your banker to keep them informed of your goals and your progress. This will make them more effective when you need their services.
- You must have some method of reviewing and measuring the success of your team. Foster the concept of continuous improvement, and encourage input on how to measure success.
- Understand **conflict resolution** techniques. This requires excellent listening skills, patience, empathy, and an ability to help the team find common ground and work jointly towards a win-win solution.
- Developing a system of tangible rewards is important. But remember that motivation does not always come from money, nor can a business always afford monetary rewards. You can also offer non-monetary rewards, such as time off or a better office, or even a trophy or t-shirt. Remember: What gets rewarded gets repeated.

Summary

Use **OHD 3-23** to summarize key management goals.

EMPLOYEE RELATIONS

If you want your business to run smoothly and grow consistently—even in your absence—you must hire exceptional people, and empower them to contribute the best of what they have to offer.

This means creating a system of rewards, policies, and guidelines for all your employees; writing job descriptions and performance evaluations; and offering fair and competitive compensation.

It also means hiring smart and talented people, and being secure enough to listen and learn when they come to you with suggestions, ideas, and criticism.

Key Employee Management Issues

Job descriptions

The best way to clarify roles for your employees, and for yourself, is to create clear job descriptions. Even with only one or two employees, the job description will help to clarify responsibility, and can serve as a motivating and measurement tool.

Hire the right people

Ask the questions: *How many of you have hired someone hurriedly simply to have a body to fill a work gap during a critical work time? What were the results?*

Interviewing is the key to the hiring process. If you are not good at interviewing, consider having a second person, or a team, help interview prospective employees. Being in a hurry to find somebody to fill a work gap is a common mistake. Instead, take time to find the right people, and always check references.

Employee compensation and motivation

Discuss employee compensation as a means of motivation. **Ask the question:** *What motivates you to work hard and do a good job?* List the answers on a flip chart or board. Then, discuss the list.

Some motivators will have nothing to do with money. Things like quality of life, ability to dress casually, flexible work hours, belief in the business mission, and the internal work environment may rank higher than money.

Motivation must be addressed as an ongoing process that combines training, helping people reach their potential, and compensation packages. Performance goals and standards are important. Measuring performance and rewarding excellence needs to be a part of the motivation process. Rewarding workers when they go above and beyond the call of duty is critical.

Discuss the following compensation and motivation categories:

- Regular compensation, including salary, vacation time, holiday leave, sick leave, and medical coverage.
- Additional compensation and motivators, including profit sharing, pension plans, flexible work hours, involvement in decision-making, reward programs, mentoring, learning new things, having authority, feeling like you're making a difference in the world (e.g., by working for a sustainable business).

Documenting employee performance

Evaluating and documenting your employees' performance does two things. First, it provides a written record of discussions relating to the employee's effectiveness on the job over a period of time. Second, it serves as the basis for constructive feedback to your employees. If a dispute arises regarding job performance, your documentation of discussions and meetings relating to employee issues may be the key to avoiding legal troubles.

Firing

While this is one of the most difficult tasks for many entrepreneurs, it is essential to know when firing is the right thing to do, and how to do it. Firing for the wrong reasons can lead to loss of employee morale and legal problems.

Use the employee evaluation process as a tool for determining whether an employee continues in your employ or not. Clearly communicate expectations. A probation period upon initial hiring is highly recommended; this gives you a clear timeframe during which you and the employee can each assess whether the employment relationship should continue. Many smaller entrepreneurs use a 60-day probation period before determining the permanence of the employee.

There is a standard process for terminating an employee, and you should always adhere to it. In some cases, there may be legal consequences for mishandling employee discipline or termination procedures. Your lawyer can help you understand these issues.

It's essential to document confrontations, conversations, and corrections in writing. You should thoroughly and professionally describe the problems your business has with the employee, and his or her improvement or failure to perform. Above all, stick to the facts, and don't get personal.

Summary of Employee Relations Issues

Use **OHD 3-24** to summarize management tasks relating to human resources.

PROS AND CONS OF OUTSOURCING

Throughout the course, it's important to stress the reality of global opportunities and competition. However, most of the discussion of globalization in the context of this session will revolve around the pros and cons of **outsourcing**, particularly as it relates to managing employee relations and outsourcing contracts.

Outsourcing means transferring a service, process, or function to an external provider. In the era of globalization, this provider is increasingly likely to be located in a foreign country. Use **OHD 3-25** to discuss the pros and cons of outsourcing.

Using **OHD 3-26**, stress that the value of outsourcing must be assessed in terms of long-term viability, not short-term enthusiasm and imagined savings. Don't assume that decreasing labor costs will always provide big savings! You must weigh efficiency against effectiveness. Cutting costs is a bad idea if it lowers your ability to meet customer service and quality standards, and to attract and retain motivated employees.

WORK HOUR SUGGESTIONS

Option 1: Discussion Groups—You and Your Team (20 min.)

Break into groups of 3 to 5 (depending on total class size) and assign one of the following questions to each group:

1. What do you feel motivates employees? (List and prioritize up to 5 motivators.)
2. How should you decide what compensation and benefits to offer?
3. What incentives besides money can you offer employees?
4. What criteria will you use for hiring? For firing?
5. What steps should employees follow if faced with an ethical dilemma in the workplace? (Give situational examples.)

Have each group choose a spokesperson to summarize the discussion.

Allow roughly 10 minutes of discussion, then use the last 10 minutes to have each spokesperson report to the whole group, noting areas of difficulty and differences based on business types.

Be prepared to respond to questions relating to issues surrounding personnel manuals, at-will employment, interviewing techniques, antidiscrimination laws, and basic guidelines for hiring and firing. (If you aren't familiar with these areas, perhaps you can ask the small-business attorney to stay for this part of the class.)

Option 2: Risk Management (20 min.)

Break into groups of 3 to 5. Have each group discuss the following question: *What risk management issues pertain to your business?*

- Contracts and leases
- Intellectual property protection
- Insurance
- Continuity planning
- Other (internal and external threats)

Allow discussion for 10 minutes, during which time you should move from group to group to monitor problems and questions that arise. Then, use **OHD/Handouts 3-18** and **3-19** to extend the discussion.

Use the last 10 minutes to discuss:

- How many realized the number of risk issues that existed before this class session?
- How many feel the risks are too great to manage? Why?

Homework Review

Discuss the **Background Information** exercise from **WORKBOOK SESSION 2**. Ask if there were any difficulties in finding research information.

Workbook Preview—Session 3

There is a significant number of worksheets in this session, and most will require some research and thought. Therefore, instead of attempting to work on a certain set of worksheets in class, it's better to review them, explaining their purpose and asking for questions along the way.

The **Managing Human Resources Worksheets** work in sequence to build the management and personnel team. Take time to explain the sequence, and the logical decision-making that results from following these steps:

1. Identify the owners/managers by name and title, using the **Management Team Worksheet**.
2. Analyze the knowledge and skills of your internal management team, as they relate to key management activities. This helps you decide what functions you can perform in-house, and what functions you may need to outsource. Have participants begin to fill out the **Management Skills Matrix Worksheet** to make sure they understand how to use it.
3. Once you know what knowledge and skills you and your key management personnel have, you can begin making decisions about which external team members you need. Discuss the potential cost savings related to outsourcing versus hiring permanent employees. Have participants look at the **Outside Services Worksheet** and remind them that they will need to research the costs. Also discuss the **Advisory Board Worksheet**, and the concept of the use of the advisory board as a low cost/no cost means of enhancing the team's expertise.
4. The logic to this decision-making process should now be evident. If you first analyze what management team members can do, based on their skills and expertise, and then decide what additional functions can and should be outsourced, your next step is to determine additional personnel needs for the daily operations of your business. The **Personnel Worksheets** are left until after the other decisions have been made, because the cost of personnel is one of the largest expenses a business incurs.
5. Once the personnel positions are identified, it's time to assess the cost of that personnel to the business. Show participants how to use the **Employee Salary/Wage and Benefits Worksheets**, and then how to summarize those monthly costs into the **Employee Salary/Wage and Benefits Summary Worksheet**.
6. Having discussed risk management earlier in the session, show participants the **Types of Insurance Worksheet**, again reminding them that research (contact their insurance agent AND obtaining at least two other insurance bids) is required for both the type of coverage required and the associated costs. Review the purpose of the **Intellectual Property Rights Worksheet** (which will not apply to everyone in class), the **Continuity Planning Worksheet**, and the **Other Risks Worksheet**.

If you did not use **Discussion Group Option 2 (Risk Management)** in the Work Hour, **ask the question:** *What other risks are not covered by insurance, but need to be considered in your risk management policies?* Have some specific examples in mind.



NOTE: Remind participants that the financial information they are going to accumulate (e.g., data on salary, benefits, taxes, and the cost of outside services) will be used when we get to the Financial Section.

Assignment Review

Review the reading assignment for next session, which starts the market analysis work. Review the *Writing Your Plan* page in **WORKBOOK SESSION 3**, showing participants where this section fits in the business plan. Use the *NxLevel® Sample Business Plans* to illustrate this section.

OVERHEADS AND HANDOUTS FOR SESSION THREE

OHD	3-1	Sole Proprietorship—Advantages and Disadvantages
OHD	3-2	General Partnership—Advantages and Disadvantages
OHD	3-3	Limited Partnership—Advantages and Disadvantages
OHD	3-4	Corporation—Advantages and Disadvantages
OHD	3-5	S Corporation—Advantages and Disadvantages
OHD	3-6	Limited Liability Company—Advantages and Disadvantages
OHD	3-7	Cooperatives—Advantages and Disadvantages
OHD/Handout	3-8	Government Regulations
OHD/Handout	3-9	Government Regulations—continued
OHD/Handout	3-10	IRS 20-Point Checklist—Independent Contractor or Employee?
OHD	3-11	Basic Terms of a Contract
OHD	3-12	What's In a Lease?
OHD	3-13	Protecting Intellectual Property
OHD	3-14	Types of Insurance
OHD	3-15	Types of Insurance—continued
OHD/Handout	3-16	Business Continuity Planning
OHD	3-17	Succession Planning
OHD/Handout	3-18	Risk Management Checklist
OHD/Handout	3-19	Risk Management Checklist—continued
OHD	3-20	Management Leadership Tips
OHD	3-21	Traditional Organizational Chart
OHD	3-22	Optional Organizational Chart
OHD	3-23	Key Management Goals
OHD	3-24	Key Employee Management Practices
OHD	3-25	Pros and Cons of Outsourcing
OHD	3-26	Guidelines for Successful Outsourcing

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION THREE



- Copies of the legal statutes and legal entity information for your state, as well as info on fee schedules, trademarks, etc. (should be available from Sec. of State's office).
- Articles from contemporary business magazines on management and legal matters
- Articles on continuity planning, emphasizing the typical failure of small businesses to have adequate data back-up procedures in place

You have the option of finding these articles/publications for use in class, or asking students to search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes below.

Supplemental materials used for Session Three

Notes

Sole Proprietorship

Advantages

- **Easy to form, and the simplest way of doing business**
- **Owner has complete control**
- **Owner receives all income**
- **No double taxation**

Disadvantages

- **Unlimited personal liability for all acts and debts of the business**
- **Fewer tax benefits**
- **The business dies with the owner**
- **Ineligible for equity financing**
- **Limited ability to raise capital**

General Partnership

Advantages

- **Fairly simple to set up**
- **Combination of resources & talents**
- **Personal tax benefits**

Disadvantages

- **More recordkeeping requirements**
- **Unlimited liability (including for each other's actions)**
- **Dissolution upon death of a partner**
- **Partnership profits taxed as income to the partners**
- **Possible friction between partners**

Limited Partnership

Advantages

- General partners have additional capital
- Limited partners have limited liability
- No double taxation

Disadvantages

- Initial organizational cost high
- Limited partners have no control
- Partnership profits taxed as income
- Subject to state and federal securities laws
- Subject to state and federal securities laws
- Finite existence

Corporation

Advantages

- **Limited liability of shareholders**
- **Perpetual existence**
- **Flexibility of financing through outside investors**
- **Transfer of ownership by sale or gift of stock**
- **Tax benefits available to corporate employees**

Disadvantages

- **Initial organizational cost high**
- **Annual reporting requirements**
- **Double taxation on dividends**

S Corporation

Advantages

- **Same as for Corporation**
- **Taxed at the individual shareholder level**

Disadvantages

- **Except for the tax consequences, same as for Corporation**
- **With some exceptions, only individuals can be shareholders**
- **Limited number of shareholders**
- **Limited to one class of stock**
- **Must use calendar year**

Limited Liability Company

Advantages

- **Limited liability without limits on management participation**
- **Flexible ownership and capital structure**
- **No double taxation**
- **Allocation of tax benefits among members**

Disadvantages

- **Poor tax treatment of fringe benefits**
- **Transferability must be governed by buy/sell provisions**

Cooperatives

Advantages

- Members own and control the business
- Potential for collective efforts to improve marketing and add value to products
- Shared expertise in operation is a potential benefit

Disadvantages

- Lengthy process by members to set up (bylaws, major policy issues, direction, board)
- Effectiveness depends on members' long-term dedication
- Group decision-making and shared ownership may be cumbersome

Government Regulations

General Business Taxation

- ☐ **Personal Income Tax**
- ☐ **Business Income Tax**
- ☐ **Sales Tax**
- ☐ **Property Tax**
- ☐ **Business License Fees**

Employee Regulations

- ☐ **Payroll Tax/Withholding**
- ☐ **Employee vs. Independent Contractor**
- ☐ **Wage and Hour Regulations**
- ☐ **Hiring and Firing Regulations**
- ☐ **OSHA**

Consumer Protection Regulations

- ☐ **False advertising**
- ☐ **Warranties**
- ☐ **Telemarketing, Spam, Consumer Privacy**
- ☐ **Uniform Consumer Credit Code**

Government Regulations—cont'd

Commerce Regulations

- ☐ State / City Business Registration
- ☐ Uniform Commercial Code

Bankruptcy Laws

- ☐ Filing Requirements and Limitations

Zoning Regulations

- ☐ Signage restrictions
- ☐ Manufacturing / retail restrictions

Transportation Regulations

- ☐ Certification and licenses
- ☐ Export controls and customs
- ☐ Hazardous materials restrictions

Environmental Regulations

- ☐ Storage tanks
- ☐ Clean Water Act and Clean Air Act
- ☐ Endangered Species Act
- ☐ Water Rights and Restrictions
- ☐ Hazardous Materials Storage and Handling
- ☐ International Laws (e.g., REACH)
- ☐ Extended producer responsibility laws

IRS 20-Point Checklist—Independent Contractor or Employee?

Primary Factors

Yes No

- | | | |
|--|--------------------------|--------------------------|
| 1. Does the service recipient have the right to require compliance with significant instructions? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Does the service recipient have the right to set the hours of work? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Does the service recipient have the right to set the order or sequence of services to be performed? | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. Does the service recipient have the right to discharge the service provider? | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Does the service provider have the right to hire, pay and supervise assistants as the nature of the work requires? | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Does the service provider have no ability to realize a profit or loss? | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Does the service provider have no investment in significant tools, materials and other equipment when such items are necessary to accomplish the task and are customarily provided by the service provider? | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Does the service provider have no significant investment in facilities when they are necessary to accomplish the task and they are customarily provided? | <input type="checkbox"/> | <input type="checkbox"/> |

Secondary Factors

- | | | |
|---|--------------------------|--------------------------|
| 9. Does the service recipient train the service provider? | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Does the service recipient have the right to require oral or written reports? | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. Does the service recipient pay by the hour, week or month? | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. Does the service recipient pay for business and/or travel expenses? | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. Does the service recipient have the right to require personal service? | <input type="checkbox"/> | <input type="checkbox"/> |
| 14. Does the service provider usually not work for more than one firm at a time? | <input type="checkbox"/> | <input type="checkbox"/> |
| 15. Does the service provider maintain a continuing relationship with the service recipient? | <input type="checkbox"/> | <input type="checkbox"/> |
| 16. Does the service provider devote substantially full time to the service recipient? | <input type="checkbox"/> | <input type="checkbox"/> |
| 17. Does the service provider have the right to terminate the relationship at any time without incurring liability? | <input type="checkbox"/> | <input type="checkbox"/> |
| 18. Is the service provider integrated into the service recipient's business? | <input type="checkbox"/> | <input type="checkbox"/> |
| 19. Does the service provider not make his or her services available to the public on a regular and consistent basis? | <input type="checkbox"/> | <input type="checkbox"/> |
| 20. Does the service provider work only on the service recipient's property or designated location? | <input type="checkbox"/> | <input type="checkbox"/> |

Note:

- “Yes” suggests employee status. “No” suggests independent contractor status.
- More weight should be given to the first eight questions than the last twelve.
- If you answered “yes” to any of these 20 questions, proceed with caution. Consult an accountant or tax lawyer who is familiar with the problems raised by hiring individuals as independent contractors.

Basic Terms of a Contract

- **Performance**
- **Price**
- **Quality Control**
- **Bailout provisions**
- **Time to Perform**
- **Non-Conforming Goods**
- **Place of Delivery**
- **Warranty**
- **Good Faith**
- **Remedies**
- **Arbitration / Mediation**

What's in a Lease?

- **What are you leasing?**
- **True cost of the lease**
- **Payment escalators**
- **Permitted uses**
- **Lease responsibilities**
(green standards, maintenance, etc.)
- **Renewal options**
- **Purchase rights**
- **Right of first refusal**
- **Exclusivity**

Protecting Intellectual Property

☐ Patent

Prevents others from copying and selling your invention. Costly to create and enforce.

☐ Trademark

Words, logos, symbols, colors, sounds, and shapes that represent your company. Inexpensive to register.

☐ Copyright

Protects creative work (e.g., textbooks, songs, creative writing). Inexpensive to register.

☐ Trade secrets

Secret processes, methods and information may be protected under Uniform Trade Secrets Act.

Types of Insurance

Covering Your Business

- ☐ **General liability**
- ☐ **Product liability**
- ☐ **Professional liability**
- ☐ **Key person**
- ☐ **Business property**
- ☐ **Business interruption**
- ☐ **Automobile**
- ☐ **Electronic data protection**
- ☐ **Website insurance**

Types of Insurance—cont'd

Covering Your Employees

- ☐ **Workers' compensation**
- ☐ **Life insurance**
- ☐ **Health insurance**
- ☐ **Pension plans**

Specific to Your Business

- ☐ **Other** _____
- ☐ **Other** _____
- ☐ **Other** _____
- ☐ **Other** _____

Business Continuity Planning

- ☐ **List all necessary business functions, who performs them, and what equipment and supplies are required.** Compile contact information for key employees and assign recovery tasks.
- ☐ **Identify threats, and the business functions they threaten.** Try to minimize the damage they can do to infrastructure, equipment, and data.
- ☐ **Compile detailed contact information** for all essential outside partners (lawyers, suppliers, etc.).
- ☐ **Identify and make copies of essential documents.** Create duplicates of all the documents you need to run your business.
- ☐ **Designate a secondary work site** to use until your primary site is restored or replaced.
- ☐ **Get employee input.** Seek employee comments before finalizing the plan.
- ☐ **Distribute the finished plan to employees.** Every member of your team should have a copy of the plan at work and at home.
- ☐ **Revise the plan as necessary.** When things change, your plan needs to change too.
- ☐ **Test the plan regularly.** It's better to learn about mistakes during a practice run than during a crisis!

Succession Planning

Ask the tough questions...

- ◆ **Are family members capable of running the business?**
- ◆ **Can family members work together?**
- ◆ **Do family members actually *want* the business?**

Risk Management Checklist

- ☐ **Are my goals written, measurable, and realistic?**
- ☐ **Have I communicated those goals with everyone in the business?**
- ☐ **Do I understand the goals of family members and employees?**
- ☐ **Do I know which risks can keep me from attaining my goals?**
- ☐ **Have I decided which risks I am comfortable managing with my own resources, and which I should shift to others or seek assistance with?**
- ☐ **Have I scheduled regular insurance check-ups for health, life, casualty, property, disability and long-term care?**
- ☐ **Do I have a solid relationship with my risk management advisors?**
- ☐ **Do I understand how much coverage I need to provide adequate cash flow for my business?**
- ☐ **Will my lender understand my overall plan for my business and help me achieve my goals?**

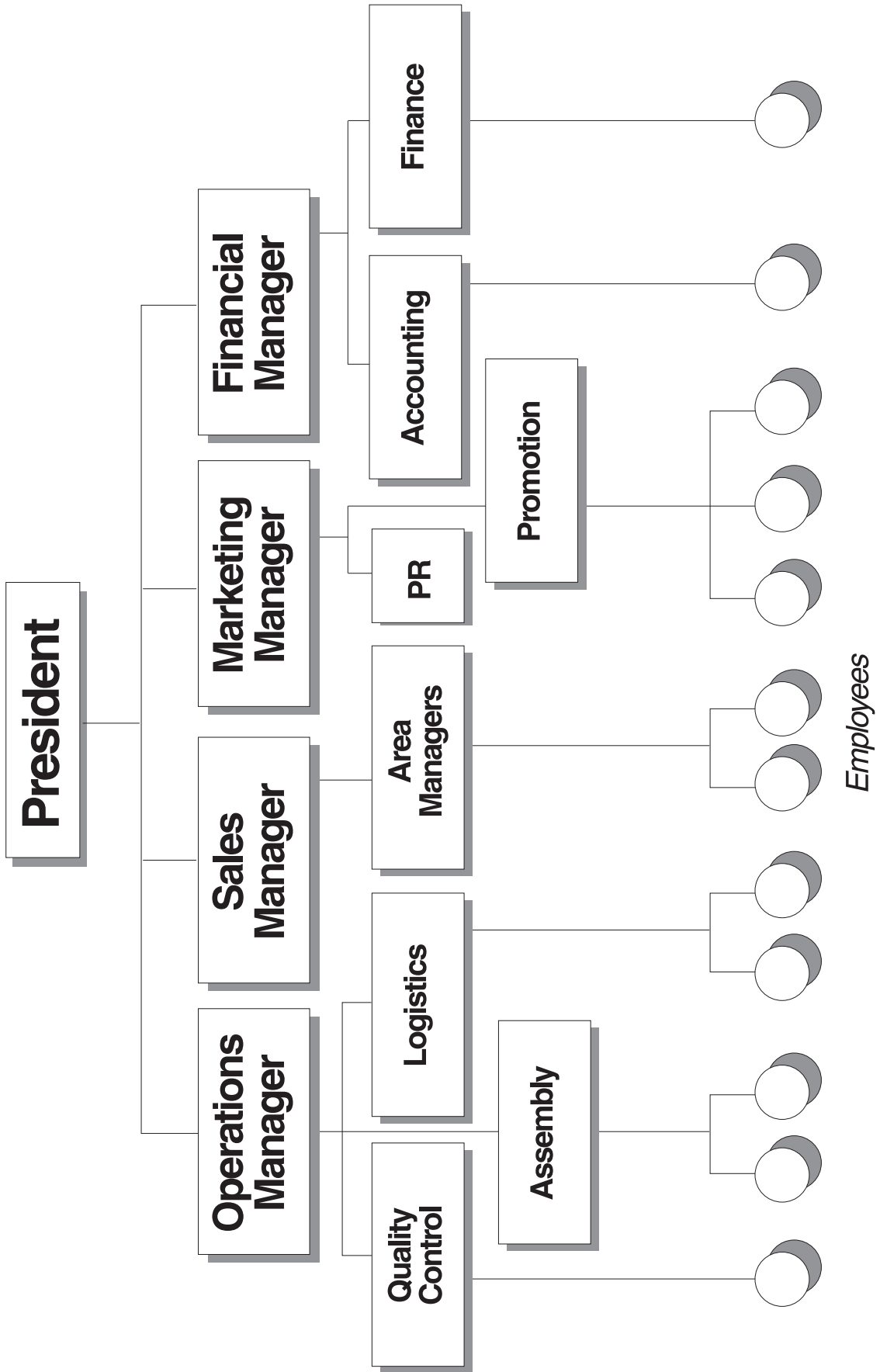
Risk Management Checklist—cont'd

- ☐ Are all of my assets covered in my risk management plan?
- ☐ Do I know what financial records I need to manage my business? To document my borrowing requests?
- ☐ Do I understand the terms and conditions of my borrowing arrangements?
- ☐ Do I have alternative sources of income in case of low market prices, etc.?
- ☐ Do I have a will? When was it last reviewed?
- ☐ Have I advised family members as to the location of my will and other important documents?
- ☐ Do I have life insurance? Is my list of beneficiaries up to date?
- ☐ Have I created a continuity plan?
- ☐ Have I explored ways of transferring assets to the next generation?
- ☐ _____
- ☐ _____

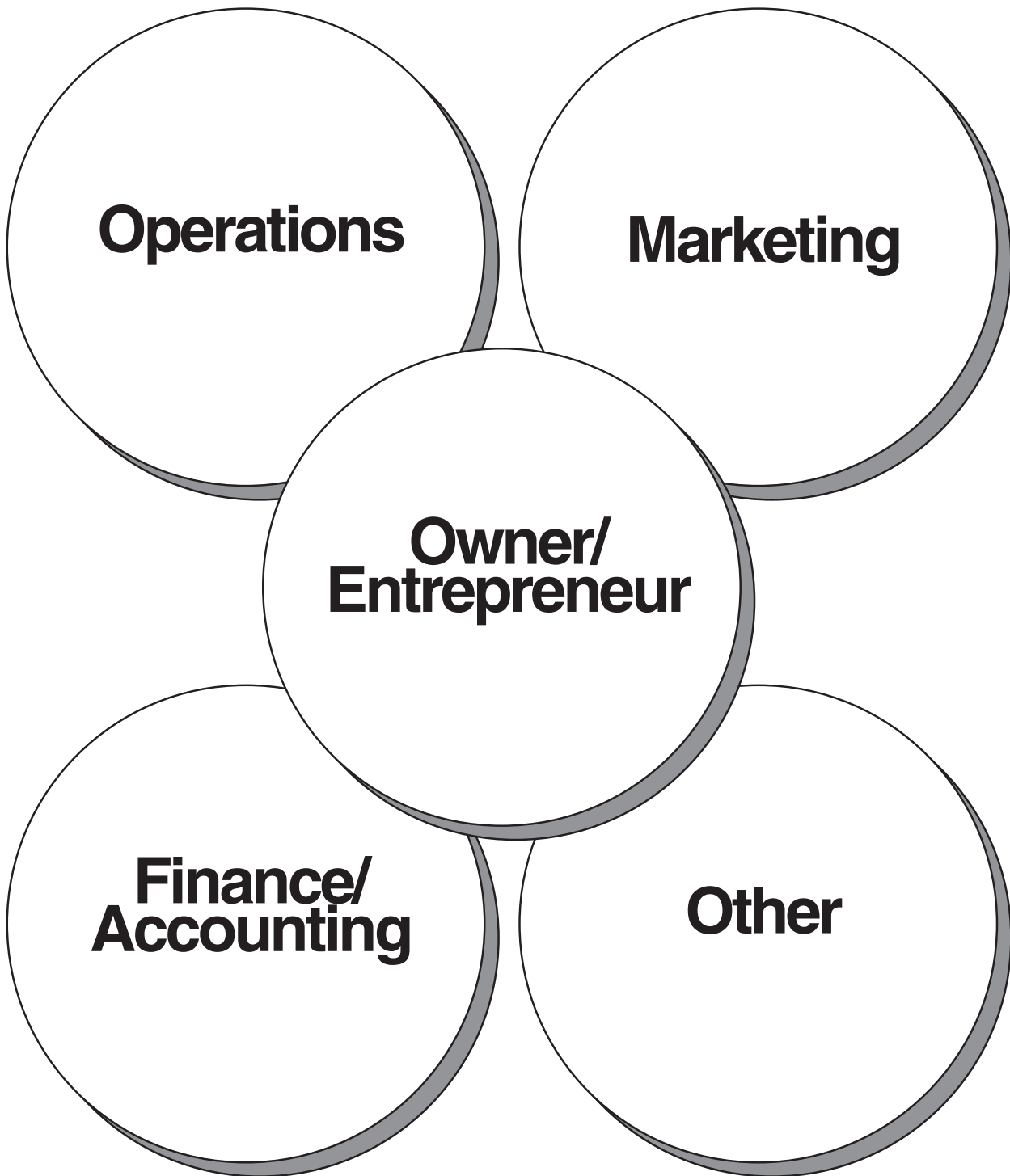
Management Leadership Tips

- ◆ **Delegate**
- ◆ **Set goals**
- ◆ **Create a vision**
- ◆ **Communicate**
- ◆ **Inspire**
- ◆ **Have fun**
- ◆ **Identify strengths of team members**
- ◆ **Plan long-term**
- ◆ **Trust**
- ◆ **Provide direction**
- ◆ **Resolve conflicts**

Traditional Organizational Chart



Optional Organizational Chart



Key Management Goals

Learn to delegate

**Develop your internal team and
your external team**

Look at the big picture

- ✓ **Develop management goals and strategies**
- ✓ **Create processes and structures**
- ✓ **Assign responsibilities**

Communication is key

Lead by example

Get advice

Accept constructive criticism

Have fun!

Key Employee Management Practices

- ◆ **Identifying tasks and job descriptions**
- ◆ **Interviewing, selecting and hiring, and training**
- ◆ **Setting performance goals**
- ◆ **Evaluating/measuring performance**
- ◆ **Creating compensation and incentive strategies**
- ◆ **Facilitating communication and learning**
- ◆ **Teaming for collaboration and cooperation**
- ◆ **Facilitating fun and creativity**

Pros and Cons of Outsourcing

Pros

- Allows a focus on core competencies
- May lower costs by eliminating redundant personnel, while freeing up other staff for more important tasks
- May allow you to reassign tasks to staff members who earn less money, thus reducing overall costs
- Relatively well-paid employees may become available to work at lower scales

Cons

- Outsourcing to foreign firms may result in bad PR, low employee morale, and consumer disaffection
- You may need to manage multiple outsourcing relationships across cultural and legal boundaries
- Some tasks are not suitable for outsourcing, and some jobs are not economical to outsource

Guidelines for Successful Outsourcing

Understand your core competencies!

- What expertise do you have in-house?
What expertise must you seek elsewhere?
- Figure out what you do best, and consider delegating the rest.
- Can you manage the new relationships that outsourcing will involve?
- Are there structures in place to make it work?
- What matters to customers? Will outsourcing affect their perception of your business, or your core competencies?

Seek long-term viability, not short-term savings!

- Pay attention to employee and customer perceptions and reactions.
- Don't assume that cutting labor costs will always provide big savings!
- Weigh efficiency against effectiveness.
Seeking greater efficiency is a bad idea if it lowers your ability to meet customer service and quality standards!

Learning Objectives

- Develop an understanding of marketing issues and their day-to-day impact on profitability
- Understand the necessity for market analysis
- Develop a customer profile and analyze the competition
- Learn how to use customer and competition profiles to analyze market potential
- Understand the relationship between the Four Ps

Marketing: Analysis and Understanding Session Four

Date: _____

Due: Section IV.—Part A._____

Class Opener

Instructor Topics

1. What is Marketing?
2. The Four Ps—Product
3. Analyzing the Customer
4. Analyzing the Competition
5. The Four Ps—Placement



Guest Speaker

Break

- Refreshments
- Networking Activity

Work Hour

Assignment for Session Five

WORKBOOK

Read and complete worksheets in **Workbook Session 4.**

WRITE

Using the *Writing Your Plan* pages in **Workbook Session 4** as your guide, write **Section V. The Marketing Plan—Part A. Products/Services**, and **Part B. Market Analysis.**

TEXT

Read **Price** (Chapter 29); **Promotion** (Chapter 30); and **The Art of Selling** (Chapter 32).
Read or review **Part VII: The Internet and E-Commerce** (Chapters 33 and 34).

Learning Objectives

- Develop an understanding of marketing issues and their day-to-day impact on profitability
- Understand the necessity for market analysis
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- Understand the relationship between the Four Ps

Marketing: Analysis and Understanding Session Four

Date: _____

Due: Section IV.—Part A.

Class Opener (10 min.)

Articles of interest, best / worst news, brain teaser, etc., or see *A Quick Market Survey*.

Instructor Topics (50 min.)

- (5 min.) **1. What is Marketing?**
- (10 min.) **2. The Four Ps—Product**
 - Features and Benefits
 - Positioning, Packaging, and Product Mix
- (15 min.) **3. Analyzing the Customer**
- (10 min.) **4. Analyzing the Competition**
 - Direct, Indirect, and Future Competition
 - Why Analyze the Competition?
- (10 min.) **5. The Four Ps—Placement**



Guest Speaker (30 min.)

- Marketing consultant or marketing manager

Break (30 min.)

- Refreshments
- Networking Activity

Work Hour (60 min.)

- Discussion Group
- Homework Review
- Workbook Preview—Session 4

Assignment for Session Five

WORKBOOK

Read and complete worksheets in **Workbook Session 4**.

WRITE

Using the *Writing Your Plan* pages in **Workbook Session 4** as your guide, write **Section V. The Marketing Plan—Part A. Products/Services**, and **Part B. Market Analysis**.

TEXT

Read **Price** (Chapter 29); **Promotion** (Chapter 30); and **The Art of Selling** (Chapter 32).
Read or review **Part VII: The Internet and E-Commerce** (Chapters 33 and 34).

CLASS OPENER—A QUICK MARKET SURVEY

As participants come into class, give each of them one of the handouts for **A Quick Market Survey**, which you'll find at the end of these notes. Pair up participants as they arrive, and tell them to quickly complete the exercise as shown on the handout.

Five minutes after the last pair has started, ask the group as a whole what they discovered in doing this exercise. Answers might include: market research doesn't have to be difficult, complicated or lengthy; the answers people gave weren't what they expected; they learned something new about their product or service; the way a question on a survey is worded can influence how people answer.

WHAT IS MARKETING?

Use **OHD 4-1** to explain that "marketing is EVERYTHING you do to promote your business, from the moment you conceive of it to the point at which customers buy your product or service and begin to patronize your business on a regular basis."

In a well-run company, every team member understands the importance of marketing, and treats every interaction with customers as an opportunity to communicate the company's message.

By ensuring that your Website is attractive and easy to use, your Web designer communicates your sense of style, your wisdom, and your commitment to making life easier for your customers. The receptionist who answers your phone communicates your friendliness, your knowledge, your efficiency, and your eagerness to solve problems. The shipping clerks who package your merchandise communicate the value you place on it, and on customer satisfaction.

Think what a difference it makes to receive an item that's nicely packaged in clean protective material, versus an item that's been tossed into a stained, flimsy box full of old newspaper. As you can see, the image of your company can depend as much on a part-time shipping clerk as it does on your more elaborate marketing efforts.

Are your customers concerned about the environment? If so, should you package your merchandise in Styrofoam or lots of excess plastic, or would it be better to spend a little extra money on biodegradable or renewable packaging?

Should you use free weekly newspapers as packaging material, even if they contain large sections devoted to ads for adult entertainment? Your customers may not care, of course...but what if they do?

These examples show that from a marketing perspective, no detail is insignificant. Anything that affects your customers' perception of your company affects your bottom line.

What is a Market?

A **market** is a group of people who are, or will be, your customers. Figuring out which people have the strongest likelihood of becoming and remaining your customers by identifying common characteristics within the group is part of the marketing process.

Studying the market will allow you to target your marketing efforts by **segmenting** larger markets into **target markets**. We will return to the discussion of segmenting and target markets when we discuss customer research and analysis.

Elements of Marketing

Use **OHD 4-2** to remind participants that there are three elements to marketing: market research, market analysis, and the implementation of marketing strategies and tactics.

In Session 2, we began the process of market research by looking at your industry. That research will now serve as the basis for gathering additional information about your customer, your competition, and your overall market potential. You will then be able to start analyzing the information, which will ultimately help you choose the right strategy.

THE FOUR PS—PRODUCT

Traditionally, marketing involves discussion of the **Four Ps**. First, we'll look at **product**, and the marketing issues that relate to it. We will continue our research and analysis phases by looking at customers, competition, and market potential.

After that, we'll discuss **placement**, which includes where you do business, and the distribution channels relating to that location. In the next session, we will continue with **price** and **promotion**.

Features and Benefits

We use the term “product” to refer to anything you sell. It could be a product, a service, or a mixture of the two. And really, most products *are* mixtures. No matter what you sell, customer service can add value to it, and that makes it one of your selling points. There's a “service” side to selling products, and a “product” side to selling services. The way to understand how these pieces fit together is to look at **features** and **benefits** (see **OHD 4-3**).

What is a feature? It's a characteristic of your product. **Examples:** Ease of use, low price, convenient hours, location, color, size, weight, money-back guarantee, payment options, delivery time, and so on.

What is a benefit? It's what a feature does for the customer. **Examples:** If a product is easy to use, its benefit to the customer is time savings, convenience, and no discomfort or worry. If your product has a money-back guarantee, its benefit is a sense of security and confidence.

Ask participants to think about and name the features and benefits of common products and services. **Example:** A feature of lipstick might be “bright, beautiful color.” What is the benefit? What is the cosmetic company *really* selling?

What's the lesson here? **People buy benefits, not features!**

Positioning, Packaging, and Product Mix (see **OHD 4-4**)

Product positioning

Marketing is about positioning your product in your customer's mind so that they think of your product or business ahead of all others.

Ask the question: *What is the first business name that comes to your mind when I say that you need new tires?* (Answers will usually be area-specific: Big O Tire, Tom The Tire Man, or whatever tire stores are in your area.) *Now, what is the first brand name that comes to mind when I say you need new tires?* (The most common responses are Goodyear, Bridgestone, and Peerless, with Goodyear usually being in first position. This shows that Goodyear has positioned itself in our minds better than most other brands.)

Defining benefits will help you to position your product in the marketplace, by forming the basis of a positioning statement that will guide your marketing and advertising efforts. Other things that influence product positioning include **seasonality** and the **product life cycle** (which are addressed in **WORKBOOK SESSION 4**) and **pricing** (which will be addressed in the next session).

Have participants turn to the ***Products/Services Description Worksheet*** and the ***Life Cycle and Seasonality Worksheet*** and review the content and purpose of these exercises.

Exercise: Have participants break into small groups and work on the features and benefits portion for products within their individual businesses. Ask several groups to report on one or two of their product discussions, and have the whole class constructively critique the features and benefits they identified. Again, discuss how identifying features and benefits will help determine promotional strategies.

Point out that this first section is a separate writing assignment, with its own *Writing Your Plan* page for Part A of the Marketing Plan.

Product packaging and labeling

Most people think of packaging only as the physical package that surrounds a product. In reality, your package includes your business cards, letterhead, logo, the way you present yourself, your invoices, your services, and so on.

Exercise: Show two similar products in different packaging. Ask what conclusions can be drawn about price, quality, image, and so on.

Service businesses package themselves too. **Ask the questions:** *How does the appearance of service providers affect their image? How would you feel if you went to your accountant's office and found him or her dressed in shorts and a torn t-shirt? Or if your plumber showed up in a suit and tie? Or if you saw clouds of black smoke coming from the tailpipe of a van advertising "eco-friendly" lawn care?*

The lesson? Packaging needs to be consistent with your product, pricing, and brand identity.

Product mix

When marketing more than one product or service, be sensitive to the compatibility of the **product mix**.

Ask the questions: *How successful would a retailer be trying to sell diamond rings right next to the comic book display? What is the image of comic books? What effect could that image have on the ability to market fine jewelry?*

ANALYZING THE CUSTOMER

Developing an accurate customer profile enables you to decide which group of customers to target first, and to measure how many of those customers exist in your trade area.

One of the greatest mistakes made in marketing is assuming you have a product that everyone will want. You can't be all things to all people, so you must analyze the market and find your own **niche** (that special or unique place in the market where you fit).

We're going to try to answer four questions in our market analysis (see **OHD 4-5**).

1. What is your customer profile?
2. How big is your trade area?
3. How many people in your trade area match your customer profile?
4. What is the market potential for your business? (Note: For obvious reasons, we will address this last issue after discussing competition.)

1. What Is Your Customer Profile?

Demographics

One of the most common ways of analyzing and categorizing customers is by **demographics**, which uses physical characteristics as the basis for segmenting people. Gender and age are two of the most commonly used demographic characteristics.

Ask the question: *What other demographic characteristics can help you identify your customers?* (See **OHD 4-6**.)

- Income level
- Education
- Household type (e.g., single, married, with or without children)
- Location
- Occupation

By analyzing the population in your trade area, you'll begin to get a picture of your customer base, and analyze whether there are enough customers to sustain your business, let alone to consider growing or expanding.

Psychographics

Analyzing mental or **psychographic** characteristics is another method of segmenting consumers.

Ask the question: *What are some of the psychographics that might influence your customers?* (See **OHD 4-7**.)

Answers might include:

- Needs and desires (security, esteem, love, acceptance, understanding, good health, beauty, security, status, success, altruism)
- Buying styles (price, fads, quality, latest technology, luxury, convenience)
- Attitudes towards technology (early or late adopter, active or passive, used for work or pleasure)
- Cultures (modern, traditional, religious, liberal, conservative, artistic, environmentally aware)
- Interests/hobbies (sports, reading, fitness, cooking, gardening, online groups and forums)

Discuss how the reasons for buying influence marketing decisions. Also, emphasize the importance of technology to marketing. For instance, Internet marketing varies depending on whether or not your customers buy online, and whether they have computers or Internet connections that can actually load your site.

Business customers

Ask the question: *Do the same methods of analyzing customers apply to business customers (i.e., researching demographics, psychographics and technological capabilities)?*

In most cases, yes. Knowing the demographic and psychographic characteristics of your primary contacts within the business customer environment will be particularly helpful. In addition, there are some business characteristics that should be researched, as we'll see when we get to the ***Business Customer Profile Worksheet***.

Where and how do you find out about your customer?

Discuss various methods of researching your customer.

Secondary sources (e.g., library references, trade associations, US census data) were discussed briefly in Session 2. Use **OHD 4-8** to review the sources that are available in the library and online, and the type of information those sources generally provide. Also, refer to the *NxLevel® Resource Guide* (Tab 5, Demographic Resources).

Discuss **primary sources** of information and the value of each, including:

- Phone surveys (short questionnaire conducted by qualified interviewer)
- Personal interview
- Online surveys
- Focus group (up to 15 people brought together for a group interview)

The quick market survey you conducted at the start of class is an example of how simple market research can be. Market research can be done in the library, online, or on the street for little or no investment. Alternatively, it can be done for a fee through marketing consultants. But whatever methods you choose, it must be done!

Customer Profile Worksheets

Have participants look at the **Customer Profile Worksheets** in **WORKBOOK SESSION 4**. As research is done, participants are encouraged to go back to this worksheet and review their initial answers.

This is a good place to explain that market research takes time, and is an ongoing process. There's always a temptation to go with what you *think* you know, based on assumptions or wishful thinking. That's not an option in market research and analysis.

Outdated information in one part of the business plan may lead to targeting the wrong customers, bad budgeting decisions, and other problems. No business ever outgrows the need to conduct market research. On the contrary, growth requires it. Use **OHD 4-9** to highlight effective research techniques.

It's important to challenge your prejudices, assumptions, and beliefs. Approach data with an open mind, and expose yourself to plenty of viewpoints that differ from your own. Remember: Things aren't necessarily true just because you want them to be!

Don't let your research be overly influenced by social or political preconceptions. When researching market trends, make a point of reading things you don't normally read, even if they're written by people you don't normally agree with. No one's always wrong, and it can be dangerous to listen only to the voices you agree with. Keep an open mind, and seek the truth.

As your participants do their research, you should encourage them to go back to the customer profile sheet and check their initial answers against what they've learned since. New, more accurate information may change many parts of the marketing plan—for the better!

2. How Big Is Your Trade Area?

Go back to **OHD 4-5** to remind participants where we are in this discussion.

While you are analyzing your customer, you must also consider your geographic trade area. One of the reasons people buy is location. How big is your trade area? Is it your community? Your state? The world?

There may be a large difference in your customer types based on your definition of your geographic trade area. The size of the geographic market will also influence how many customers are located within those boundaries.

The marketing plan for a very small geographic area would be drastically different from the plan for a larger one.

Example: Suppose your town (population 5,000) has one small hospital facility for emergency treatment only and 5 local physicians. You want to start a business that offers linked computer services specifically for doctors and hospitals. 25 miles down the road is a town of 50,000 that has two major hospitals and 20 local physicians. **Ask the questions:** *How important is the geographic determination of your market? What other examples can you think of where the geographic boundaries could make or break a market?*

Remind participants that it's sometimes wise to target a smaller geographic territory when you're starting out, unless that smaller territory doesn't have enough target customers to support the business idea. It's better to start small and grow big, than to start big and get smaller!

Last, note that geographic area also affect customer needs. Weather, climate, the presence of oceans or mountains...all of these things can affect buying patterns.

Example: Could you make a living selling snowshoes in Florida? Probably not!

3. How Many People in Your Trade Area Match Your Customer Profile?

Again, refer back to **OHD 4-5**. Use census and other data to determine the number of prospective customers in your trade area. Remember: the total number of people in an area does not equate to the total prospective customers. They have to match your customer profile.

Example: My geographic territory has 50,000 people and industry information indicates that two percent of that population is likely to purchase my skis. I might conclude that I have 1,000 potential customers. However, I have to make sure that there really are 1,000 people who are likely to buy my product living in the area. My customer profile tell me that my primary market is young adults, male and female, between 25 and 35, of middle to high income. I live in a part of the country where the median age is 50, where there is little snow, and where the average income per family is \$20,000. Am I likely to find 1,000 ski customers in my territory?

The same kind of reasoning applies if you are selling to other businesses, rather than to individual customers. How many businesses are there in your target region (each business is a customer)? Prospective business customers can be researched by using the Yellow Pages, information from the local Chamber of Commerce, or other local Economic Development associations.

Market segmentation

The process of separating various interest groups from the rest of the people who buy your products is called **market segmentation**. Very few businesses have the time or money to market to every segment of the public, nor would doing so be wise.

The **80/20 Rule** of marketing says that **80 percent of a typical company's business comes from 20 percent of its customers**. If you know who this critical 20 percent are, it stands to reason that you will aim most of your marketing efforts at them. The analysis you are doing now enables you to identify and target that market.



NOTE: We will delay discussing market potential, since part of that step is influenced by the quantity and quality of your competition.

ANALYZING THE COMPETITION

Direct, Indirect, and Future Competition

Ask the question: *How many of you think you have no competition?*

The fact is, there's no such thing as "no competition"! Participants should also be aware that the obvious competitor may not be the *only* competitor.

Example: Suppose a participant is starting a quick lube shop. The **direct competition** would be other quick lube shops, as well as gas stations and car dealerships that offer the same services.

But you also have to look at **indirect competition**. The do-it-yourself person who changes the oil in his or her own car is indirect competition, as are the hardware, grocery, and drug stores that sell oil and filters. All these outlets have to be factored into your competitive analysis.

Indirect competition can increase in economically hard times, when many people can't or won't pay for a service they can perform themselves, or when a premium product may be passed up in favor of a cheaper equivalent.

Seasonality can also affect indirect competition. A cold winter may increase business in a quick lube shop, whereas a warm summer may make sitting on your porch and waiting for the oil to drain out of your car a lot more appealing.

What happens when a business opens up and proves to be profitable? Think about McDonald's. When Ray Kroc started to franchise his restaurants, people laughed at him. Now, there are franchises in almost every town and country. Also, consider how much future competition was stimulated by the success of that hamburger stand! Competition must always be expected, and prepared for.

Ask the question: *Is competition always bad?* (**Examples:** In some towns, you'll find many restaurants or antique stores in a single area. This variety attracts more customers to the area, which ideally benefits all the business. Also, if you have a restaurant that's a couple of doors down from a popular place with a long waiting list, you may get some of their overflow.)

What happens in your community when someone has a good idea and brings it to market? Are there lots of competitors within a short time? Do the locals patronize the new businesses readily? Anticipating the response to future competition is an important exercise. And of course, keeping a keen eye on your market allows you to adjust and refine your own marketing plan and sales pitch.

Exercise: On a flip chart or the board, put the headings *Direct*, *Indirect*, and *Future*. Break into groups of 3 or 5. Have each group brainstorm competition for each of the businesses in the group under all three headings. Allow approximately 15 minutes for group work, then ask several of the participants to report on their answers and list them on the flip chart. (There won't be time to go through everyone in the class, so pick the businesses that you think might be the most challenging.)

Discussion topic: *How is the Internet affecting the competitive landscape for businesses?* One obvious answer is that your competitors can be almost anywhere in the world. (We will discuss the Internet further in the next session, after students read the chapters on the Internet and e-commerce.)

Why Analyze the Competition?

Ask the questions: *Why should you spend all this time learning about your competition? Is it worth the effort to study what they do and how they do it?*

Use **OHD 4-10** to explain that studying the competition can provide you with a wealth of information about your customer, the marketplace, and profit potential, at little to no cost.

- Analyzing the competition may tell you more about what customers want.
- You may discover niche markets that the current competition isn't serving.
- You might get ideas for marketing, merchandising, and product mix.
- It's essential to know how your competitors are responding to new regulations, trends, and technology (e.g., environmental laws, social networking, demand-driven manufacturing).
- Remote competition (similar businesses located outside your trade area) may give you advice, information, help, and support that you cannot get locally. Networking with your remote competition can be invaluable, and the Internet makes these easier than ever.

During the Work Hour, we will be using the **Competitive Analysis Worksheet** to help you focus on how elements of your business compare with your competition. For now, use **OHD 4-11** to highlight things you should know about your competition.

Ask the question: *Why is it important to be honest with yourself when you compare your business to that of your competitors?*

- Unless you have a **competitive advantage** over existing competitors, there's no motivation for customers to change their buying habits.
- Your strengths are the basis for your advertising and marketing plans, so you must know what those strengths are before you can use them.
- Your strengths may justify charging a higher price for your product, but you need to be sure you're superior enough to merit a higher price
- Recognizing your competitive advantage may make it easier to penetrate the existing market and take a portion of business from your competition.

THE FOUR PS—PLACEMENT

Placement refers both to the place of doing business (**location**) and the place of the business relative to getting products into the customers' hands (**distribution**).

Make the point that anywhere from 15 to 50 percent of the total product price is normally spent on distribution, so that students understand how this issue affects the bottom line.

Location

Explain the concept of **location** as it relates to marketing strategies. Is the business close to the customer base? Will there be transportation challenges related to moving the product from the location to the customers? Use **OHD 4-12** to discuss these issues.



NOTE: The Internet has changed the importance of physical location for retail businesses. You can choose to bring this up now, or wait until the session on e-commerce.

Customer Habits and Preferences

Retail businesses are particularly sensitive to visibility and high traffic areas (places where people prefer to shop or are in the habit of shopping). Remember that traffic does not always mean sales, however. The costs of being in a high traffic area like a mall must be taken into account for your particular type of business.

Service businesses that require the customer to come to them have similar location considerations, including an attractive building, convenient parking, clean and attractive offices, and so on. Other service industries (e.g., construction trades) generally have location requirements based on the needs of the company (adequate storage, close to supplier warehouses, etc.). An efficient location ultimately affects the quality of customer service.

Business Credibility

Location needs to meet the customer expectations. Would you be comfortable going to a dentist's office in the back of a flower shop? Probably not, since you have an expectation of what a dentist office location should be that doesn't fit with a flower shop.

Discuss home-based businesses and location credibility. What are some of the pitfalls of running your business from your home? How can they be overcome?

Trade Area

Your size of your trade area affects the price you pay for rent, the type and quantity of customers you are likely to attract, and the price you can charge.

Examples:

- Rent in a regional mall may be much more expensive than in a downtown location
- Inner city mall customers may attract a different income level and quantity of customers than a specialty shop in the suburbs
- You may be able to charge \$200 per hour for accounting work in a metropolitan area, but only \$50 per hour in a rural market

Distribution Channels

Every business has **distribution channels**, which are the means by which materials move from the producer to the consumer.

- **Industrial channels** move raw materials to the manufacturer of the final product. For instance, an industrial distribution channel will move iron ore from the mine to the smelter. Another industrial distribution channel will move steel from the smelter to the auto manufacturer.
- **Consumer channels** then move the finished cars from the manufacturing plant to the car dealers, where the consumers purchase them.

The length of your **supply chain** depends on where you are positioned within it. For example, if you are a brick-and-mortar retailer, you usually want to be positioned near your end user (which may be defined as populated areas or places where the end user gathers). If you are a manufacturer located in New Mexico using wholesalers and distributors to reach end users in New York, the chain is very long.

The goal for most businesses is to achieve the shortest and least complicated supply chain at the most reasonable cost, given their position in the chain.

For a manufacturer, location near transportation hubs may be critical, so that products change hands a minimum number of times before reaching the wholesaler or end user. For an international service provider, the primary location issue would be the availability of air transportation near the base location of the business.

Ask the questions: *How does your position in the supply chain affect your decision about location? How does it affect other marketing decisions? Discuss.*

4. What is the Market Potential in Your Trade Area?

You have analyzed and described your product, identified your target customer(s), scrutinized your competition, determined your competitive advantage, and defined your primary geographic trade area.

Now, it's time to look at this last question, which will help you determine if there is enough potential business (as measured by sales dollars in your defined trade territory) for you to succeed. Who will buy from you—given your customer profile, your competition, the size of your trade area, and your location—and how much will they spend on average?

This initial estimate of your annual sales volume is difficult to get right, because its accuracy depends on the quality of your market research.

The ***Projected Sales Volume Worksheet*** in **WORKBOOK SESSION 4** will guide you through the calculations. We will work on this worksheet during the Work Hour.

GUEST SPEAKER



Marketing consultant or marketing manager

Prepare some questions that you would like your guest speaker to address, and give them to your guest well in advance of class.

Suggestions:

- What are some of the most common marketing mistakes entrepreneurs make?
- What sort of projects have you undertaken?
- What services are generally offered by a marketing consultant, and at what price?
- What low cost/no cost marketing suggestions do you have for the entrepreneur on a very tight budget?
- What sort of decisions are typically based on market analysis?

WORK HOUR SUGGESTIONS

Discussion Group: Let's Start a Business (30 min.)

To tie this discussion together in a fun exercise, do the following.

Begin by saying "We, as a whole class, are going to open a _____ business (pick something fun and a bit out of the ordinary, like a Western lingerie store, a hand-tied fly-fishing shop, or something like that).

Start the discussion with questions like:

- What are we going to sell?
- Where are we going to sell it (geographical and specific location within a town)?
- What products are we going to carry?
- Who is our market? Where is it? How big is it? When, how often, and why do they buy?

Log answers to these and similar questions on a flip chart or board. Show how each question leads to a specific marketing decision. At the end, show how the evolution of this thought process, and the use of a focus group, might affect the projects being worked on in class. As a final exercise, pick a name for the fictitious business, and discuss how important a name, logo, and brand identity is to marketing.

Homework Review

Discuss how or if the choice of legal structure affected the writing of the **Management and Personnel Section**. Review any management or personnel questions that may have come up since the prior session.

Workbook Preview—Session 4



NOTE: You previewed the ***Products/Services Description Worksheet*** during class.

Briefly review the ***Customer Profile Worksheets***, again pointing out that there is one worksheet for individual customers and one for business customers. Explain how to gather the data needed to fill out the worksheets, and why that information is important.

Look at the ***Competitive Analysis Worksheet***. Have participants identify the three competitors they intend to profile, and why. (You could ask two or three if they would be willing to share that information with the class, and explain why they chose those particular competitors.)

Make sure participants understand the prioritizing column on this worksheet. Then, review the questions following the worksheet that relate to competitive advantage. Stress personal observation as a valid research technique.

Spend some time explaining how to use the ***Determining Market Potential—Projecting Sales Volume Worksheet***, and what research and decisions are required to complete it. Consider using some fictitious numbers to illustrate the calculations, so you can demonstrate how to interpret the answers.

Also, discuss determining market potential when the primary marketing tool is the Internet. (Can this traditional worksheet approach be used? Or must we look at the business's capacity to produce, rather than the number of customers anticipated?)

Assignment Review

Be sure to point out that there are two parts to **WORKBOOK SESSION 4** (i.e., **Section V. Part A** and **Part B**). Have participants look at *both* of the *Writing Your Plan* pages. Use the *NxLevel® Sample Business Plans* to illustrate the completed sections.



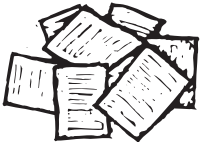
NOTE: Although the discussion of location and distribution took place in this session, the ***Location Worksheet*** will be assigned in Session 5.

OVERHEADS AND HANDOUTS FOR SESSION FOUR

OHD	4-1	What is Marketing?
OHD	4-2	Elements of Marketing
OHD	4-3	Features vs. Benefits
OHD	4-4	Product Marketing Considerations
OHD	4-5	Goals of Market Analysis
OHD	4-6	Demographics
OHD	4-7	Psychographics
OHD	4-8	Sources of Information
OHD	4-9	Information Gathering Tips
OHD	4-10	Why Analyze the Competition?
OHD	4-11	Things You Should Know About Your Competition
OHD	4-12	Choosing a Location

(Also see the class opener handout **A Quick Market Survey** at the end of these notes.)

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION FOUR



- Articles pertaining to marketing and marketing consultants (preferably touching on current topics like green business, social networking, export/import, and so on)
- Bring a copy of Jay Conrad Levinson's *Guerrilla Marketing* and *Guerrilla Advertising* books to class, along with any other references you might have about low cost/no cost marketing
- Sample ads from local or regional papers
- SBDC brochures on customers, location, and market research

You have the option of finding these articles/publications for use in class, or asking students to search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes below.

Supplemental materials used for Session Four

Notes

A Quick Market Survey

You have been paired up with another participant so that both of you can conduct a quick market survey on your product or service idea. The goal is for you to find out as much as you can about the potential customer you are interviewing (your partner) to see if they begin to define who forms your customer base (your market).

Start by briefly telling your partner about your business concept, and then ask them the questions listed below. Move quickly through the questions, as time is limited and both partners are to conduct their own survey. Jot down some notes as the “potential customer” is talking. (In an actual market survey, people are only willing to give you a limited amount of time, which also requires that you conduct the survey quickly.)

When you have completed all the questions, switch roles. You have about 5 minutes each to complete your survey.

Question	Note the following about the person you are interviewing
Who? Would you be interested in buying this product or service? <input type="radio"/> Yes <input type="radio"/> No	Gender: <input type="radio"/> Male <input type="radio"/> Female Age: 0-10 10-18 19-25 25-35 35-50 50-65 over 60 Location: Town: _____ County: _____ Family Status: <input type="radio"/> Single <input type="radio"/> Couple—no children <input type="radio"/> Couple—children at home <input type="radio"/> Couple—grown children
Notes: _____	
How? How often would you purchase my product or service?	<input type="radio"/> Only once <input type="radio"/> Every 3 months <input type="radio"/> Weekly <input type="radio"/> Every 6 months <input type="radio"/> Monthly <input type="radio"/> Other response: _____
Notes: _____	
Where? Where would you be most likely to buy a product or service like mine?	<input type="radio"/> At Work <input type="radio"/> By Phone/Mail/Catalog Order <input type="radio"/> At Home <input type="radio"/> From a business that delivers to me <input type="radio"/> In a Store <input type="radio"/> Other response: _____
Notes: _____	
What? What would you be willing to pay for this product or service?	<input type="radio"/> \$ _____ —OR— <input type="radio"/> Price Range: From \$ _____ to \$ _____.
Notes: _____	
When? When would you be most likely to purchase from me?	<input type="radio"/> Day of week: M T W T H F S A S <input type="radio"/> Month of year: Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec <input type="radio"/> Time of day: _____ am / pm <input type="radio"/> Other response: _____
Notes: _____	
Why? Why would you buy this product or service?	If not interested in the product or service, why not?
Notes: _____	

What is Marketing?

Marketing is EVERYTHING you do to promote your business, from the moment you conceive of it to the point at which customers buy your product or service and begin to patronize your business on a regular basis.

The key words to remember are *everything* and *regular basis*.

—Jay Conrad Levinson

Elements of Marketing

Market Research

Study the industry...then study the customer, competition and location.

Market Analysis

Analyze your research about the industry, customer, competition, and location.

Analyze your competitive advantage.

Marketing Strategies and Tactics

Determine the best method of getting your goods and service to market, based on your analysis.

The Four Ps

Product

Price

Promotion

Placement

Features vs. Benefits

Features:

- Size
- Quality
- Varieties
- Types
- Materials

Benefits:

- Health
- Convenience
- Social status
- Time savings
- Security

***PEOPLE BUY BENEFITS,
NOT FEATURES!***

Product Marketing Considerations

- **Features and Benefits**
- **Life Cycle and
Seasonality**
- **Packaging and Labeling**
- **Product/Service Mix**

Goals of Market Analysis

- 1. Identify your customer profile (demographics, psychographics, access to and attitudes towards technology).**
- 2. Identify your trade area (geographic boundaries and size).**
- 3. Determine the number of people (or businesses) in your trade area who potentially match your customer profile.**
- 4. Determine the market potential for your business in your trade area.**

Demographics

- **Age**
- **Gender**
- **Location**
- **Education**
- **Occupation**
- **Income Level**
- **Marital Status**
- **Kids?**

Psychographics

Needs and values

Security, esteem, love, acceptance,
understanding, beauty, good health,
status, success, simplicity

Buying styles

Price, fads, quality, technology, luxury,
convenience

Cultures

Modern, traditional, artistic, religious,
liberal, conservative, environmentally
aware

Attitudes towards technology

Early or late adopter, active/passive,
work or pleasure

Interests

Sports, reading, fitness, cooking, travel,
gardening, outdoors, online activities

Sources of Information

- ☐ **Survey of potential customers**
- ☐ **Small Business Development Center**
- ☐ **Chamber of Commerce**
- ☐ **Library**
- ☐ **Commercial sources (local utility companies, market research companies)**
- ☐ **Trade associations**
- ☐ **Stockbrokers**
- ☐ **Online resources**
- ☐ **Phone book**
- ☐ **Competition (visit, review advertising materials, buy their product)**
- ☐ **Census information**
- ☐ **Local zoning plan**
- ☐ **Suppliers**
- ☐ **Test market**
- ☐ **Other: _____**

Information Gathering Tips

- **Keep your eyes and ears open**
- **Ask lots of specific questions**
- **Listen carefully to the answers**
- **Don't influence the responses with positive or negative cues**
- **Honestly evaluate the answers**
- **Don't let wishful thinking, assumptions, or prejudices affect how you gather or interpret data**
- **Always remain calm and courteous!**

Why Analyze the Competition?

Because You Might:

- **Learn more about what the customer wants (or doesn't want)**
- **Discover unserved niche markets**
- **Learn how they're dealing with new laws, trends, and technology (e.g., green, social networking, demand-driven manufacturing)**
- **Get ideas for marketing, merchandising, and product mix**
- **Obtain valuable advice, support, and information**

Because You Will:

- **Determine whether you have a
COMPETITIVE ADVANTAGE**

Things You Should Know About Your Competition

- **Direct or indirect competition?**
- **Where are they located?**
- **What is their brand image?**
- **Who are their customers?**
- **How do they price their products?**
- **How is their overall performance?**
- **How is their customer service?**
- **What promotions do they use?**
- **What technology do they use?**
- **What are their strengths and weaknesses?**

Choosing a Location

- **Proximity to customers**
- **Neighborhood**
- **Convenience**
- **Safety (lighting, off-street parking, etc.)**
- **Accessibility (ADA)**
- **Visibility**
- **Foot traffic, vehicle traffic**
- **Other complementary businesses nearby**
- **Size/floor plan requirements**
- **Lease or own**
- **Zoning restrictions; landlord restrictions**
- **Costs (property, amenities, required improvements)**

Learning Objectives

- Understand the importance of branding
- Learn what elements influence price
- Understand the principles of customer service, and their impact on profitability
- Examine available promotional tools, and select the most effective mix for your business
- Consider how to use the Internet for marketing, sales, and customer relationship management

Marketing: Strategies, Tactics, and Implementation Session Five

Date: _____

Due: Section V.—Parts A and B

Class Opener

Instructor Topics

1. Product Strategies
2. The Four Ps—Price
3. The Four Ps—Promotion
4. The Internet and E-Commerce



Guest Speaker

Break

- Refreshments
- Networking Activity

Work Hour

Assignment for Session Six

WORKBOOK	Read and complete the worksheets in Workbook Session 5 .
WRITE	Using the <i>Writing Your Plan</i> page at the end of Workbook Session 5 as your guide, write Section V.—Part C. Marketing Strategies .
TEXT	Read Overview of Financial Statements (Chapter 35) and Keeping Books and Records (Chapter 36).

Learning Objectives

- Understand the importance of branding
- Learn what elements influence price
- Understand the principles of customer service, and their impact on profitability
- Examine available promotional tools, and select the most effective mix for your business
- Consider how to use the Internet for marketing, sales, and customer relationship management

Marketing: Strategies, Tactics, and Implementation Session Five

Date: _____

Due: Section V.—Parts A and B
_____**Class Opener (10 min.)**

Articles of interest, best / worst news, brain teaser, etc., or see the exercise *Thinking Like a Customer*.

Instructor Topics (50 min.)

(10 min.)

1. Product Strategies

- Your Product Line
- Life Cycle Assessment
- Branding
- Service Enhancements

(15 min.)

2. The Four Ps—Price

(10 min.)

3. The Four Ps—Promotion

- Types of Advertising
- Public Relations and Social Networking

(15 min.)

4. The Internet and E-Commerce**Guest Speaker (30 min.)**

Internet marketing specialist or Website designer

Break (30 min.)

- Refreshments
- Networking Activity

Work Hour (60 min.)

- Special Workshop on Advertising and the Internet: Options, Effectiveness, Costs
- Homework Review
- Workbook Preview—Session 5

Assignment for Session Six:**WORKBOOK**

Read and complete the worksheets in **Workbook Session 5**.

WRITE

Using the *Writing Your Plan* page at the end of **Workbook Session 5** as your guide, write **Section V.—Part C. Marketing Strategies**.

TEXT

Read **Overview of Financial Statements** (Chapter 35) and **Keeping Books and Records** (Chapter 36).

Additional Instructor Notes

Session Five



NOTE: For this discussion, consider recommending *Guerrilla Marketing* and *Guerrilla Advertising*, both by Jay Conrad Levinson. If possible, bring copies to class.

CLASS OPENER—THINKING LIKE A CUSTOMER

Exercise: Put the following questions on a flip chart or board:

- *As a customer, what do I expect from the businesses who serve me?*
- *What must a company do to earn and keep my business?*

As participants enter, ask each of them to write down one answer under each question. If the participants who come in last can't think of an answer that hasn't already been logged, ask that they put a checkmark by an answer that is most important to them. You will discuss their answers later, during the instructor topic discussions.

PRODUCT STRATEGIES (SEE OHD 5-1)

Your Product Line



NOTE: Remind participants that the term “product” can refer to a product or service.

Briefly review the terms **product line** and **product mix**. Illustrate expanding the product line (offering more styles of earrings) versus the product mix (selling earrings and hats).

Another product line strategy decision is the **depth** and **width** of your product line. Discuss these terms and give examples. Note that **inventory control** is one of a retailer's biggest challenges, and depth and width have a significant impact on inventory control. It's important to revisit your business's strengths, long-term objectives, customer preferences, and financial resources before extending a product line.

Life Cycle Assessment

Typically, **life cycle assessment** attempts to quantify the environmental impact (i.e., pollution and resource use) of each stage in the useful life of their products: resource extraction, manufacturing, storage, selling, shipping, consumer use, and disposal. (Of course, this applies to services, too. Tools, materials, vehicles, processes, resource use, toxicity, and disposal/clean-up can all be assessed from this perspective.)

The information gained from this assessment can be used to:

- Optimize each stage from an economic, environmental, or social standpoint
- Provide a basis for product labeling and promotional claims
- Reveal wasted effort and inefficiency, and unexpected consumer benefits
- Find nontoxic or renewable inputs
- Reduce the amount of waste material (e.g., unnecessary packaging)
- Extend product life
- Reduce energy and material use

You can use data from third-party life cycle assessments of other products and materials to optimize individual stages in the life cycle of your own product.

Example: If studies show that soy-based inks are environmentally preferable to petroleum-based inks, you might use this information to improve your own product, by switching to soy-based inks for your packaging. This in turn becomes a selling point for your product, and may even increase goodwill and customer loyalty.

Branding

Marketing comprises everything you do to promote your business. Therefore, everything you do should be consistent, and reinforce the marketing message you want to convey.

Branding is about creating a consistent message for your business, and making sure it comes through whenever and wherever you interact with the public. The first step in establishing a brand is choosing a name for your company and product (see **OHD 5-2**).

Ask the question: *What makes a good name?*

- It should be eligible for trademark protection
- It should suggest product benefits (e.g., Mr. Clean, Beautyrest mattresses)
- It should establish or reinforce the brand identity: Nissan Pathfinder (adventure), Ding Dongs (snack food for kids)
- It should be easy to pronounce, recognize, and remember

Your **brand identity** is how you present your product to the public. It includes benefits, packaging, advertising, and services. You can also look at brand identity as a promise. When customers see your name or logo, it promises them certain things. Each time you deliver on that promise, your brand is strengthened. Any time you break the promise, it's weakened.

Brand image refers to the associations that your brand evokes in consumers' minds. Remember: Consumers don't buy products; they buy an image of what the product will do for them.

You can look at it this way: brand identity is how you want to be seen, while brand image is how you *are* seen. Ideally, they should be identical. If you think of yourself as a radio transmitter, and your customers as receivers, then branding is a lot like getting your signal through loud and clear, without any static.

Use **OHD 5-3** to discuss the importance of **brand management**.

Choosing a logo

Your logo is the graphic symbol of your brand. You can choose a logo that reflects or depicts your product, but you don't have to! Many firms use abstract logos, and let their reputation assign a meaning to it.

Take care when choosing a logo, and consider local, regional, and international implications.

Example: *What do golden arches have to do with hamburgers (or with food, for that matter)?*

Absolutely nothing...until McDonald's turned them into the symbol of its brand. Now, just about everyone recognizes golden arches as the symbol of McDonald's, and has feelings about them that are pretty much identical with their feelings about McDonald's food and service.

Here are some characteristics of a good logo:

- Simple and instantly recognizable
- Reproduces well in black and white, and in different sizes
- Suggests product benefits (e.g., the white arrow formed by the letters in the FedEx logo)
- Looks equally good on business cards, packaging, mailing labels, t-shirts, billboards, and computer and cellphone screens (e.g., the AT&T globe logo).

Packaging and brand identity

Packaging helps to communicate your product's brand identity. It also serves the basic function of protecting products, and providing information about use, ingredients, quantity, and so forth.

Packaging decisions can free your business from regulatory oversight, reduce shipping costs, earn goodwill, and increase your access to overseas markets. Make your packaging decisions carefully!

Services can also be packaged. A bookkeeping service, for example, might consider the importance of professionally produced business cards, letterhead, invoices and brochures.

Example: If customers come up to an unkempt, unpainted building with a lot of trash in the parking lot, they may not feel too comfortable about going inside. If a home-based entrepreneur invites a customer into a living room office with dogs, kids, last night's dinner and a diaper pail next to the guest chair, the customer isn't likely to come back.

Packaging your image as a service business is just as important. The way your employees dress, the state of repair of your work vehicles, and the look of your invoices all contribute to building your image.

Remind participants that they only get one chance to make a good first impression. (Then remind existing businesses that it is possible to enhance your image by correcting deficiencies.)

Service Enhancements

Emphasize this point: **Everything you need to know about customer service, you already know.** After all, you are a customer!

Thinking from the customer's perspective is the best starting point for great customer service:

- If you were the customer, how would you react to your product, price, and brand image?
- Try to understand the customer's expectations. Discuss the "Thinking Like a Customer" expectations that participants logged during the Class Opener exercise.
- Understanding customer expectations leads to customer satisfaction, customer loyalty, and customer commitment. All of these elements are essential for the existing business to survive, and even more important in a growth or expansion phase.

Customer service policy

Emphasize the importance of having a good customer service policy in place and making sure all employees know the policy. Use **OHD 5-4** to highlight the basic requirements.

Ask the question: *When customers get angry, what do you do?*

Customers seldom get angry unless they feel they've been cheated, ignored or belittled. Therefore, a good customer service policy can go a long way towards keeping customers happy. Listening to your customers is also a good way to learn about your target market.

Each business should have a customer service specialist (i.e., a person who is good with people, and who can take an angry customer's rantings and still be polite and willing to help).

Remember, it's much more difficult and costly to develop a new customer than it is to retain an existing one!

All of the customer service suggestions discussed apply to the existing customer. It's very easy to take your existing customers for granted, so make sure you are as oriented toward them as you are towards new customers. Eighty percent of your sales will come from existing customers, so it makes sense to pay particular attention to them.

Exercise (Customer Retention Strategies): Break into small groups and brainstorm customer retention strategies. Have groups report out and log responses. (Strategies should include things like thank-you notes, mobile coupons, Twitter alerts for special customers, etc.). You could also delay this exercise and use it in the Work Hour.

THE FOUR PS—PRICE



NOTE: In this section, we discuss price in general terms (i.e., how it fits into marketing strategies), instead of explaining how to price specific products. In Sessions 7 and 8, we will return to the practical side of pricing. Three worksheets at the end of Session 7's Additional Instructor Notes will facilitate that discussion. If you have participants who are concerned about pricing their products, you can give them these worksheets during this session. However, you should remind them that their cost budgets (Session 7) have not yet been developed, and will directly influence pricing calculations and decisions. (See the ***Retail, Service, and Manufacturing Pricing Worksheets*** at the end of the Additional Instructor Notes for Session 7.)

Pricing is the ultimate measure of marketing skill. It requires you to calculate your cost of doing business, the psychological and financial impact of price on your target customers, and the response of your competitors.

It wasn't long ago that price was the most important element of the marketing mix for many businesses. But today, competing solely on the basis of price is no longer an option for many small businesses. Trying to keep up with the pricing trends and challenges of bigger discount retailers is a game that you don't want to play.

Fortunately, you have many other competitive advantages. Shrewd branding, high quality, green and sustainable products or business practices, excellent customer service, speedy decision-making, and a user-friendly Website can differentiate your business, and decrease the importance of price to your customers.

Pricing Objectives

Pricing is the process of figuring out how much to charge per **sales unit**. A bookstore's sales unit would be a single book, while a housecleaner's sales unit could either be an hour of work (\$15 an hour), or a specific job (\$100 to clean out the garage).

Pricing objectives depend on a variety of factors, including your production costs, brand identity, competitive environment, and so forth. The most common pricing objectives are:

- Maximizing profits
- Maximizing sales volume
- Return on investment
- Meeting or beating the competition
- Quality leadership

Price, Cost, Value, and Demand

Using **OHD 5-5**, start by defining these basic terms:

- **Value** is what your customer believes the product is worth.
- **Price** is the amount you charge customers for the product.
- **Cost** is what you spend to produce your product.

In pricing, cost is often called the **floor**. You can't go below it, or you'll be charging less than your product costs you to deliver. Raw materials, labor, overhead, taxes, and a profit margin must be figured into costs. (We will return to the discussion of pricing to cover costs when we work on **break-even analysis** in Session 8. For this session, keep the discussion general, without bogging down in the actual calculation of break-even.)

Value is the **ceiling**. It's the maximum your customers will pay, based on what they think your product is worth (**perceived value**). That means your costs should be as low as your brand identity (i.e., quality and positioning) permits, and your value should be as high as possible.

Example: Consider the perceived value of an organic product, compared to a conventional one. For some people, organic products have a greater perceived value because they're seen as healthier. Others are willing to pay more because they believe it will benefit the environment. And still others do not perceive the value of organic products as being higher, and therefore will not pay a premium for them.

Demand refers to the amount of your product that customers are willing and able to buy at a specific price. A customer who has \$10 to spend might be willing to buy two pillows if your price is \$5 per pillow, but only one if your price is \$7 per pillow. Being able to afford the product is an essential part of demand; just wanting the product doesn't count!

Other issues that tie into demand include **seasonality** (demand for snowshoes is higher in winter than summer); **convenience** (consumers will pay more to save time); and **elasticity** (i.e., the sensitivity of your customers to the price of your product).

Ask the question: *What things can you think of that influence how you price your product?* Log answers on a flip chart or board, and use **OHD 5-6** to summarize common pricing issues.

Pricing Strategies

Many businesses experiment with several price levels before settling on a pricing strategy, or combine several of these approaches to reach the optimal pricing strategy.

- **Cost-plus pricing** requires you to total all fixed and variable costs, and add a target return to determine your sale price. A target return is usually expressed as a percentage of total costs. It tends to work best in industries where consumer demand and competition are stable and predictable.
- **Competition-based pricing** either matches the pricing structure of an industry's price leader, or follows industry-wide norms.
- **Value-based pricing** requires you to determine how much your product is worth to your customers, based on their perception of the value of the benefits it delivers. The goal is to charge an above-average or **premium price**, while leaving customers with the feeling that they've gotten a good deal. Customers may be willing to pay premium prices for status, quality, uniqueness, or altruistic concerns like environmental or social benefits.
- **Skimming** is a means of maximizing your profit margin by setting a higher price in the short term, and tailoring it to the price sensitivity of your market segment(s). This strategy may be advisable when your product is unique or innovative enough to attract buyers who will pay top dollar to get it right away.
- **Penetration pricing** means setting a low price in order to enter a new market, or to increase your market share.

Branding and perceived value

As we discussed earlier, perceived value is subjective. It's something you earn through good marketing practices, good design choices, and good customer service. Every branding choice you make affects the perceived value of your product, which in turn affects your ceiling price.

Example: Think about the headache tablets at your local drugstore. A name-brand tablet sits right next to a generic tablet that costs half as much, and yet the name brand often sells as well as—or better than—the generic. The two tablets have exactly the same ingredients, in exactly the same dosage. But the name brand is familiar. It offers security and confidence, and people are willing to pay extra for it. These brands succeed by creating a perception of value that withstands competitive pressures.

Value in use

When dealing with certain customers, it's necessary to communicate your product's **value in use**. This refers to the overall savings that a customer will realize by paying a bit more for your product.

Does your product last longer than a less-expensive competing product? Does it offer a savings in time or effort? Does it reduce shipping or disposal costs? If so, show your customer how paying a little more in advance can save a lot down the road.

Price and quality

The ***Price/Quality Relationship Worksheet*** in **WORKBOOK SESSION 5** will also discuss how customers evaluate products/services based on the relationship between price and quality. Finding the right balance between price and quality will be partly dependent on the image you create for your product, which then influences the customer's perception.

Remind participants to re-read Chapter 29 *Price* in the **TEXT**.

Online Pricing

The Internet has affected pricing strategies in a number of important ways.

- Increased international competition has led to more consumer choice and lower prices for many types of goods.
- It offers an unprecedented degree of **price transparency**. Buyers can look for the lowest price by visiting multiple websites, or by visiting sites that compile price data from a wide range of online retailers.
- It encourages **dynamic pricing**, in which price fluctuates according to supply and demand, consumer purchase history, and other variables.
- There's a growing trend towards auction-like pricing, in which consumers offer their preferred price, and the seller accepts or rejects it. PriceWhispers (www.pricewhispers.com) is a good example.

Offering value online (see OHD 5-7)

If you do a search for a given product, and look at the first ten sites that appear, you'll find that some of them look far more professional than others. They have a clean, nicely designed interface with high-quality pictures of the item, detailed technical information, a clear return policy, and a toll-free number for customers who need questions answered right away. They also have customer reviews that praise their quality and service.

Studies have shown that features like these can coax online buyers to pay up to 20 percent more for identical products, which is a great example of the importance of branding and perceived value to pricing.

That said, it's important to keep your online pricing structure in line with your offline brand identity. If your business offers the best prices in town, it needs to maintain that image online. If you offer high-quality, green, or otherwise unique goods, your online prices should reflect that. Sending mixed pricing messages is likely to confuse customers and undercut your branding strategy.

Making Price Fit Your Marketing Mix

No matter which pricing strategy you use, it must be consistent with all the other elements of your marketing mix.

- **Product strategy.** Is your price in line with your customers' perception of quality? If not, you should lower your price, improve your quality, or educate customers about your product's quality.
- **Distribution strategy.** High-priced, premium products should be distributed selectively, while economy products should be distributed intensively to maximize their availability to larger, price-sensitive markets.
- **Promotional strategy.** If you sell a premium product, is your advertising image one of quality and service? If it is an economy product, is your advertising image one of value?

THE FOUR PS—PROMOTION



NOTE: Decide how much time to spend on advertising, based on your class configuration. For some business types, traditional advertising may not be a subject of emphasis. Be flexible. Each group you teach may need a different emphasis in the promotional discussion.

A good promotional strategy lets consumers know what your product is, what it does, why it's better than anyone else's, and how they can buy it.

A great promotional strategy does much more than that. It communicates your brand identity and your values. It doesn't just tell consumers why they need your product; it inspires their goodwill, trust, admiration, respect, and loyalty. The common misconception here is that promotion simply means paid advertising. That's one method of promotion, but we'll also be focusing on public relations, networking, and other low-cost / no-cost promotional tools.

Let's look at the *Who, What, When, and Where* of effective advertising. (See **OHD 5-8**.)

WHO: The Right Audience

With your customer profile in hand, you know the characteristics of your target market, and can analyze media choices to see which of them are most likely to reach this audience.

WHAT: The Right Message

Regardless of the type of advertising, the message usually contains the following elements:

- **Offer.** What are you trying to sell?
- **Benefits.** What will this product do for your customer?
- **Proof.** Evidence that the benefit is real (pictures, testimonials, surveys, awards).
- **Call to action.** Ask the customer to do something (hurry for one-day-only sale, call now for free delivery), and give the information needed to take that action (name, address, phone, hours of operation).

The right message is one that grabs people's attention, holds their interest, explains benefits, and includes a call to action.

Exercise: Bring in some local and national ads, and evaluate their effectiveness. Try to find ads for similar businesses to those represented in your class.

WHEN: The Right Time

- **Timing.** Timing is essential, since the average person is hit with over 5,000 advertising impressions each day. You need to maximize the potential for the customer to be paying attention. Work closely with media reps to determine when people are paying the most attention to advertising.
- **Frequency.** According to advertising experts, a customer usually must hear or see an advertisement **four to nine times** before the message sinks in. That means running one radio spot is a waste of money. But running 30 in one day may also be a waste. Discuss how to determine the right frequency. Many new business owners think they only need to run an ad once or twice to get results, and don't see the importance of planning and budgeting.
- **Consistency.** It takes an average of six months for a new business to get noticed, for people to change their buying behavior, and for competition to react. For this reason, consistency in advertising is essential. All promotional materials (Website, logo, letterhead, business cards, ads, jingles, slogans, etc.) should have the same look and feel, in order to communicate the business's brand identity.

WHERE: The Right Place

Ask the question: *Where will people who are interested in your products be most likely to look for your ad?*

Again, knowing the customer helps you make these decisions intelligently. That's why market research is so important! Your industry information can be a big help here, telling you whether your prospective customers are more likely to listen to the radio, watch TV, read the newspaper, look at signs and billboards, click on online ads, and so on.

Next, think about placing your ad properly within your chosen medium. Businesspeople generally read the financial section of the newspaper, while baseball fans read the sports section. Seniors might not be on MySpace, so you may have to choose a different medium to reach them.

Types of Advertising

As noted in the **TEXT**, there are many advertising tools available. The students' task is to determine which tools will best meet their needs. Use **OHD 5-9** to start this discussion, which will then lead to a discussion of media choices.

Online advertising

The Internet is very, very crowded! Somehow, you have to get your site noticed so that people can see what you have to offer. This means marketing. Always remember that attracting new customers is about six times more expensive than maintaining a loyal customer base.

Ask students to think about a Website they recently visited for the first time. Why did they go there? Where did they hear about it? Was it word of mouth? A link sent by a friend, or posted on a social networking site? An article or TV ad? Point out that what worked for them may work for others.

Discuss the use of search engines and Web directories, making sure that students understand how they work and what they do, and why they're an important part of Web marketing.

There are two primary types of Website marketing: passive and active.

- **Passive marketing** means designing your site so that it's picked up by search engines.
- **Active marketing** means using any and every means of informing the world about your Website.

You must combine passive and active marketing to attract the greatest possible number of people to your site.

One of the most influential ideas in online marketing is the **attention economy**. Users increasingly control when or whether they will view advertising, so if you want people to take time out to read your ad, you have to make it worth the "price" of their attention, and get them to opt in. While this can be more difficult than traditional advertising, it also has a greater potential to earn loyalty and word of mouth.

The **Online Marketing Worksheet** will help students become acquainted with marketing strategies, from blogs to pop-up windows. Read through it, and explain how to fill it in.

Signage

Ask the question: *How many signs did you see today? And how many did you actually read?* Many people don't think about this until asked. Point out that signage doesn't just advertise. It also gives directions, and provides other services.

The bottom line: No matter what type of business you're in, you need to attract customers and promote your brand identity. Emphasize the importance of signage to service businesses, as well as to manufacturers and retailers, and draw their attention to the supplemental workbook on signage.

Use **OHD 5-10** to explain the ABCs of signage:

- **Attracting new customers.** Every year, a certain amount of your customers will move away or change their buying habits. That means you must restock your customers, just like you restock your inventory.
- **Branding your business.** Signs are vital to branding. They trigger emotional responses. They make promises about quality and service. They either beckon or repel customers. Just as with dress, personal hygiene, and etiquette, first impressions count!
- **Creating impulse sales.** Studies show that impulse sales make up 68% of total sales. Signage must attract impulse buyers; only then can your service and value turn them into repeat customers.

Print advertising

There are a lot of terms and concepts to understand in the media world. Again, you're going to have to decide how much of this topic you want to cover in class. You also have the option of inviting media representatives in to cover this part of the material.

Broadcast advertising (radio and TV)

The most important concept to discuss in broadcast advertising is "frequency," so spend a little time here discussing how many times it takes to make an impression on the customer before they are moved to action.

Other advertising tools

If necessary, go back to **OHD 5-9** to guide the discussion of other advertising tools. Try to discuss those tools that you think will be most appropriate for your particular class mix. For example, almost everyone will be sought out by the *Yellow Pages* advertising rep once they open their business. What should they know to make wise decisions?

Public Relations and Social Networking (see OHD 5-11)

Public relations is a way of getting publicity without paying for advertising. Stress that public relations activities are used only as ways to get prospective customers' attention, not to sell.

Word of mouth is a positive reputation spread from person to person. Products that satisfy your customers' needs—complemented by creative, excellent service—make a good impression that your customers will gladly pass on to others. This is also known as **viral marketing**.

Word of mouth can be strongly amplified by customer reviews, blog comments, social networking sites, and online customer reviews. Studies show that promotional messages like these are more credible than traditional forms of advertising.

On the other hand, discuss what happens if word of mouth is *negative*. If you do something well, your customer might tell one or two other people. If you do something wrong in the customer's eyes, your customer will tell ten people within 48 hours. This is especially pertinent given the rise of social networking and business review sites like Yelp.com.

Example: Consider the reach of viral videos. If there's a cockroach on a table in your restaurant, a diner can easily film it on a cellphone and post it to YouTube. Literally tens of thousands of people may see it within a matter of hours! The lesson? Managing the customer experience is more important than ever before.

You can increase positive word of mouth by focusing on public relations and networking activities for your business, including:

- Writing or contributing to a blog, or some other industry-related Website
- Using Twitter, Facebook, or YouTube to attract a community of followers for your company
- Co-sponsoring local sporting or charity events
- Participating in local fundraisers by donating prizes or time
- Donating money to clean up highways, parks, and beaches
- Hiring local students as interns
- Installing a new, cleaner energy system (e.g., solar, wind power, geothermal), and offering public tours or demonstrations
- Remodeling a building or improving a piece of land
- Giving lectures to local trade organizations or Chambers of Commerce
- Sending your small-business story to your local newspaper or trade association
- Becoming known as an “expert” guest speaker at schools, conventions, or on local news stations
- Attending trade shows, both as an exhibitor (if appropriate), and as an observer. This provides wonderful networking opportunities with those in similar businesses, as well as opportunities for information gathering and market awareness. (Consider sponsoring your own NxLevel® student “trade show” near the end of the 15 sessions, or at graduation—it’s great practice!)
- Joining community service organizations or clubs, or participating in industry-related online forums and social networking sites.
- Asking for user-generated or crowdsourced content. (A contest format often works well for this approach.)

Note that if you are taking these actions only to get more sales, it will be obvious to consumers. You must do these things because you truly wish to participate, and have something substantial to offer.

Other Marketing Tools

Trade shows and consumer fairs (see OHD 5-12)

Encourage participants to attend trade shows sponsored by their industry association, local Chambers of Commerce, or other organizations. Also, entrepreneurs who intend to display and sell at consumer fairs should attend those fairs first, whenever possible, to see how they operate and the type of participation expected.

Cross-promotions

One example would be partnering with another business, to share the cost of promotion and gain exposure for both businesses. For example, a flower grower might consider a cross promotion with a candy store for Valentine's Day specials. Each business could offer customers a discount or coupon at the other business, or have some of the other business's product on hand for a combined sale.

Exercise: As a group, brainstorm the types of cross-promotions that might be developed using the businesses in class.

THE INTERNET AND E-COMMERCE



NOTE: This is a huge subject, and you won't have time to address it fully in this class. Participants should already have read the Internet and E-Commerce chapters, which explain current trends and technology at length. They should now be ready to discuss what these issues mean for their business (and their business plan).

As with any other quickly evolving area of the business world, it's your responsibility to enhance these discussions by making timely observations based on the needs of your class, and alerting them to trends that have emerged since the chapters were written.

It's likely that participants will have questions about e-commerce in every class. If they don't, you should bring it up whenever it's relevant. A relatively free-form discussion, tailored to the businesses represented in your class, may be a good way to go.

You can start by explaining the benefits of having an online presence, as set forth on **OHD 5-13**.

Following is a list of subjects and trends with which students should be familiar. Most of them can affect a wide range of business functions. Remind participants to consider them when necessary, with an emphasis on issues that will arise in the business plan.

Emphasize that as with green business, they may not need to embrace these trends, but they do need to understand and think about them...especially because they will be affecting the competitive landscape dramatically.

- **Social networking sites** are designed to help users make contacts and share media with likeminded people. They facilitate interaction and networking, with a strong focus on creating user-generated content. Used well, sites like Twitter can create a tremendous buzz for your business, gather huge amounts of vital marketing data, and lead to engaged, loyal customers. Used improperly, they can waste time and energy and lead to PR disasters that can take a lot of time to live down. The main point: They're a tool, and like any tool must be used in the right way, at the right time, by people who understand them.

- **User-generated content.** Participants should be familiar with business review sites like Yelp.com, and with consumer-created ad campaigns and design. You might discuss what this trend means, in terms of giving up a certain amount of control (e.g., allowing negative comments to be posted on your site) in return for greater engagement and loyalty.
- **Pay per click and other online advertising.** Even if your class has been in business for a while, it's quite possible that they don't understand how online advertising works. We suggest you familiarize yourself with this topic—using the discussion in the **TEXT** as a starting point—and prepare to discuss it at length, depending on the needs of your class.
- **Personalization.** Online consumers increasingly want products and services to be individualized, and this is driving a demand for personalization offline as well. However, consumers also tend not to want to give up large amounts of personal data, which is what many forms of personalization require. This may be an interesting point for discussion.
- **Localized searching.** This is an important trend, and the class should understand how it works and how it can benefit them. You can tie this issue back to personalization (targeting the customer at his or her actual location) and privacy issues (tracking the consumer with GPS). Ask the class how they feel about these issues, and whether they plan to take advantage of them. This would also be a good place to discuss related technologies like mobile coupons.
- **Cloud computing.** Discuss the pros and cons of using hosted programs. On the one hand, they can reduce costs, streamline operations, and provide computing power you might not be able to afford otherwise. On the other hand, there are issues relating to privacy, security, and availability. What happens if the site goes down? What's the host's privacy policy? Can your data be seized for non-payment of bills?
- **Unified communications** allows a message to be sent in one format (e.g., a voice message) and received in another (e.g., e-mail). It has a strong potential to improve customer and supply-chain relationships, by ensuring that all communications are streamlined, organized, and easily accessible. You might ask students if a system like this would solve problems or create opportunities at their business.

Having discussed whichever of these issues are appropriate for your class, remind participants that staying on top of technology issues is a must for today's entrepreneur. These trends, and others, will create the world in which your business will be competing tomorrow. Even if you're not interested in a given technology, you can be quite certain that some of your competitors are.

At this point, it's worthwhile to emphasize that old business models are not yet outdated. In some cases—like customer service—they're more important than ever. Follow up this discussion with the points on **OHD 5-14**, about why people buy—or don't buy—online.

The reasons why people don't buy make it very clear that following offline business models is vital to online sellers. You still need to know your customer, know yourself, and know your product.

Building a Website or a Web-based business raises the same questions as building a business offline. Consider:

- Short-term and long-term business objectives
- Attractiveness of target market
- Marketing mix
- Competition
- Customer needs
- Your business's strengths and weaknesses
- Your budget

Every entrepreneur needs to have sound business and customer service strategies, and nowhere is this more true than in the case of e-commerce. That's why the e-commerce information in the marketing plan is crucial.

Last, encourage participants to read the **TEXT** on security, spyware, and other problems. This is very practical information—they don't want to learn about it the hard way! Furthermore, the better they understand their own vulnerability to online crime, the better they'll be able to address the security concerns of their customers.

If it's appropriate for your class, you can use **OHDs 5-15** through **5-18** to discuss the pros and cons of various Website design and e-commerce options.

Customer Service Online

Online customers expect the same level of customer service they receive offline—if not more! According to a recent study by BizRate.com, a firm that tracks customer satisfaction with e-commerce, quality of customer service was the top factor in determining whether a customer returned to a particular online merchant.

Once again, we arrive at the issue of first impressions. Does your Website communicate who you are—and how you feel about your customers—to everyone who looks at it? Of course it does! Do your e-mail responses have to be just as professional, friendly, and punctual as you and your employees are in person? Absolutely! Whatever makes your business special offline needs to be replicated online (and vice versa).

Exercise (Technology Needs Assessment): Break into small groups and give each student a copy of the ***Technology Needs Checklist***, which comprises a list of technology they may need. Many students will know little or nothing about at least a few of the technologies listed on this sheet. Emphasize that they should look at this as an area for further research.

Have them discuss all of the ways that these technologies may help them interact with customers, employees, independent contractors, and suppliers. Have one individual from each group briefly summarize their conversation. Alternatively, you can delay this exercise and use it in the Work Hour.

**Internet marketing specialist or Website developer**

Depending on the level of your group, you could ask the guest speaker to thoroughly explain how to develop a Website (including steps like registering the domain name, designing the site, security measures, etc.).

You could also get an Internet marketing specialist, who could specifically discuss online marketing and selling, with an emphasis on the rise of social networking media.

Prepare some questions that you'd like your guest speaker to address, and give them to your guest well in advance of class.

Suggestions:

- What are the most important features for a Website to have?
- What's the best way to market a Website?
- What are some of the best business uses of social networking media?
- Why do some sites rate higher in search engines than others?

WORK HOUR SUGGESTIONS**Option: Cross-Promotional Ideas**

Challenge your participants to invent their own cross-promotions within the class. Break into small groups, and brainstorm cross-promotional ideas using the other businesses in class. Then, have them share the results with the whole class.

Option: Customer Retention Strategies or Technology Needs Assessment

If you didn't have time during earlier class time to do these exercises, you could present them as a Work Hour activity.

Option: Special Workshop on Advertising and the Internet

Ask your guest speaker to stay and, after answering some of the basic questions from above, continue with a detailed workshop on media options, rates, effectiveness, terminology, and costs.

Homework Review

Discuss any questions about **Part A** and **Part B** of the Marketing Plan. Make sure participants worked on both *Writing Your Plan* sections. Ask if any problems arose in doing research on market potential.

Workbook Preview—Session 5

Review each Worksheet set in this session. Discuss the development of the Advertising Budget, using the worksheets and the Min/Max system in the Workbook. Make sure participants have kept up with the worksheets requiring financial information, since the next session is the beginning of the Financial Plan development. Have participants look at the *NxLevel™ Business Plan Outline* at the start of their workbooks, and highlight how far they have come to this point.

Use the *NxLevel® Sample Business Plans* to show how others have completed the Marketing Section. Encourage participants to be as detailed and thorough in this section as possible, as the Marketing Section is one of the most underdeveloped parts of many business plans.

Assignment Review

Encourage participants to work hard on completing their marketing assignments so that they can focus on the next reading assignment pertaining to Financial Information. If participants get behind in the marketing assignments, consider holding an extra workshop session to get that section completed, or allowing a one-week break before starting financial sessions.



NOTE: If you have chosen to take a week off before starting the financial sessions, be sure to review when the next regularly scheduled session will be held. Encourage participants to actually work on the marketing sections, not just take a rest. It's essential to complete all worksheets and writing before continuing!

OVERHEADS AND HANDOUTS AVAILABLE FOR SESSION FIVE



OHD	5-1	Product Strategies
OHD	5-2	Choosing the Right Product Name
OHD	5-3	Brand Management Basics
OHD	5-4	Customer Service Essentials
OHD	5-5	Basic Pricing Concepts
OHD	5-6	Pricing Issues
OHD	5-7	Offering Value Online
OHD	5-8	Elements of Effective Advertising
OHD	5-9	Types of Advertising
OHD	5-10	The ABCs of Signage
OHD	5-11	Public Relations and Networking Tactics
OHD	5-12	Trade Shows and Consumer Fairs
OHD	5-13	Benefits of Being Online
OHD	5-14	Online vs. Offline Buying
OHD	5-15	Building Your Own Website: Pros and Cons
OHD	5-16	Hiring a Web Designer: Pros and Cons
OHD	5-17	Selling Through an E-Commerce Host: Pros and Cons
OHD	5-18	Issues to Consider When Planning Your Site

(Also see the **Technology Needs Checklist** handout following these notes.)

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION FIVE

- Samples of advertising to critique in class
- Articles on the pros and cons of cloud computing
- Articles on the latest trends in marketing via social networking
- SBDC brochures on advertising, display, customer service, etc.

You have the option of finding these articles/publications for use in class, or asking students to search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes below.

[illegible][illegible]

Technology Needs Checklist

NETWORKING			
	Local Area Network (LAN)		Firewalls
	Wide Area Network (WAN)		Anti-virus / Anti-spyware / Anti-spam
	Virtual Private Network (VPN)		Unified threat management (UTM)
	Business-class router		Server
	Wi-Fi Protected Access (WPA2)		Videoconferencing technology
	Other:		Other:
VOICE COMMUNICATIONS			
	Call center/call management		Voicemail / unified messaging
	Voice over IP (VoIP)		Telephone/computer integration
	Other:		Other:
DATA BACK-UP AND STORAGE			
	Tape back-up		External hard drive
	CD / DVD media		Web-based solutions
	Document scanning and imaging		Image back-up
	Other:		Other:
BUSINESS CONTINUITY			
	Online / off-site back-up		Rollover ISP
	Data mirroring		Uninterruptible power supply (UPS)
	Other:		Other:
SOFTWARE			
	Project management		Accounting
	Supply chain management		Life cycle assessment
	Customer relationship management		Presentation software
	Photo editing and design		Office suite
	Desktop publishing		Marketing / sales management
	Vertical market software		Document sharing / collaborative tools
	Enterprise resource management (ERP)		Energy efficiency / power management
	Other:		Other:
ENERGY EFFICIENCY / GREEN TECH			
	Lighting controls		Programmable thermostat
	Solar device chargers		Solar panels
	Smart meter		Energy monitor
	Other:		Other:
MOBILITY			
	Mobile e-mail access		Remote desktops / workstations
	Smartphones / PDAs		Mobile Internet devices (MIDs)
	Other:		Other:
SUPPLY CHAIN			
	Radio frequency identification (RFID)		Barcoding / scanning system
	Other:		Other:

Product Strategies

- **Understand the features and benefits of your products**
- **Determine product lines and appropriate product mix (depth and width)**
- **Position your product in the marketplace**
- **Create a unique brand identity**
- **Consider life cycle assessment**
- **Develop service enhancements**

Choosing the Right Product Name

A good product name...

- **Establishes or reinforces your brand identity**
- **Suggests product benefits**
- **Is easy to pronounce, recognize, and remember**
- **Is unique**
- **Has no double or hidden meanings**
- **Is creative, but not too cute or weird**
- **Is eligible for trademark protection**

Brand Management Basics

- **Make sure your brand promises something customers want.**
- **Keep it simple! Focus on communicating a few basic points.**
- **Be consistent. Remember that every interaction with a customer or client is an opportunity to communicate your brand identity.**
- **Involve your employees. Get them excited about your brand, and they'll communicate that excitement to others.**
- **Whatever your brand promises, exceed it!**

Customer Service Essentials

- **When customers enter your place of business, greet them immediately and pleasantly.**
- **Always make an extra effort to help customers find what they need.**
- **Always answer the phone within three rings, and e-mails within 24 hours.**
- **When a mistake occurs, quickly and professionally accept responsibility and fix it.**
- **Follow up on all customer contacts: always record the customer's name, phone number, and order type.**
- **Thank your customers every chance you get.**
- **Thank your employees for delivering excellent service.**
- **Have someone call your business and pretend to be a customer, in order to gauge service quality.**
- **Periodically survey customer satisfaction.**

Basic Pricing Concepts

- **VALUE** is what your customer believes your product is worth
- **PRICE** is the amount of money you charge your customers per sales unit of your product
- **COST** is what you spend to make your product or deliver your service
- **PROFIT** is what's left over after you subtract **COST** from **PRICE**

Pricing Issues

- **What are your costs?**
- **What will your customer pay?**
- **What brand identity do you want to convey?**
- **What does the competition charge?**
- **What will the market bear?**
- **How does a service provider determine price?**
- **What other pricing challenges does your business type face?**

Offering Value Online

- ✓ **Clean design, and fast-loading pages**
- ✓ **Answer inquiries immediately, and include a toll-free phone number**
- ✓ **Accept as many forms of payment as possible**
- ✓ **Avoid backorders**
- ✓ **Send an e-mail confirmation for all orders**
- ✓ **Offer many shipping options, including express mail**
- ✓ **Include shipping info for foreign consumers**
- ✓ **Highlight your return policy**
- ✓ **Accept customer reviews and other user-generated content**

Elements of Effective Advertising

WHO?

Right Audience

WHAT?

Right Message

WHEN?

Right Time

WHERE?

Right Place

HOW MUCH?

Right Budget!

Types of Advertising

Online

- **Paid ads**
- **Web directories**
- **Online Yellow Pages**
- **Search engine optimization**

Print

- **Newspapers**
- **Magazines**
- **Catalogs / Brochures**

Broadcast

- **Radio**
- **TV (broadcast and cable)**

Other

- **Business cards / letterhead**
- **Flyers**
- **Classified ads (online and offline)**
- **Direct mail / e-mail**
- **Telemarketing**
- **Signage**
- **Novelty advertising (e.g., pens, hats)**
- **Yellow Pages**
- **Word of mouth / viral marketing**
- **Public relations**

The ABCs of Signage

Attracting new customers

**You need to “restock”
customers who move away or
change their buying habits!**

Branding your business

**Your sign is a promise that
tells customers what to
expect. Remember, first
impressions count!**

Creating impulse buys

**Impulse buys make up 68%
of total sales!**

Public Relations and Networking Tactics

- **Write or contribute to a blog, or some other industry-related Website**
- **Use Twitter, Facebook, or YouTube to attract a community of followers for your company**
- **Co-sponsor local sporting or charity events**
- **Donate to clean up highways and parks**
- **Install a new, cleaner energy system (e.g., solar, wind power, geothermal), and offering public tours or demonstrations**
- **Remodel a building or improve a piece of local land**
- **Get involved in historic preservation efforts**
- **Give lectures to local trade organizations or Chambers of Commerce**
- **Send your small-business story to your local newspaper or trade association**
- **Hold contests and giveaways**

Trade Shows & Consumer Fairs

- **A good place to meet lots of prospects all at once**
- **A great way to show the product in operation and provide samples**
- **Attend the show before you exhibit**
- **Make your booth a class act**
- **Train your staff extensively**
- **Have a demonstration/video/sample in your booth**
- **Don't forget business cards and brochures/flyers**
- **Follow up promptly on contacts and inquiries**
- **Evaluate costs and effectiveness**

Benefits of Being Online

- **Provides business and product info to global markets**
- **Increases consumer awareness of your product** (note that even if your target customers aren't online, people who are may recommend your product)
- **Improves customer service by providing online product tips, instructions, and links**
- **Gives prospective customers one more way to contact you**
- **Networking, partnering, and bootstrapping opportunities**

Online vs. Offline Buying

WHY PEOPLE BUY ONLINE:

- **Speed and convenience**
- **Vast product selection**
- **It's easy to compare prices and save**
- **Search capabilities**
- **No driving and parking, or crowds**

WHY PEOPLE *DON'T* BUY ONLINE:

- **Product is easily available locally**
- **Doubts about reliability of seller or shipper**
- **Security, fraud, and privacy issues**
- **Shipping costs are too high**
- **Inability to sample, try on, taste, or test product**
- **Return and warranty issues (trust)**

Building Your Own Website: Pros and Cons

Advantages:

- **Your company learns site-building skills**
- **You can update your site instantly**
- **Site maintenance costs may be lower**

Disadvantages:

- **Time spent learning skills distracts from core business tasks**
- **Time spent maintaining site distracts from core business tasks**
- **Cost of site-building tools, and possible training**
- **Site may not have a professional look, and may take longer to develop**

Hiring a Web Designer: Pros and Cons

Advantages:

- **You don't have to learn new skills**
- **Costs are upfront and known**
- **No time wasted on site-building**
- **Site can be built quickly**
- **Professional look**

Disadvantages:

- **You must rely on outside help**
- **Higher expenses**
- **It may take longer to update site**
- **Site maintenance costs will be higher in the long run**

Selling Through an E-Commerce Host: Pros and Cons

Advantages:

- **Usually very easy**
- **No time wasted on site-building**
- **E-commerce functions already in place, with appropriate security**
- **Some hosts may have consumer trust, and offer problem-resolution services**
- **Professional look**

Disadvantages:

- **Higher charges (per month, per transaction, by traffic volume, etc.)**
- **Hosts may have uniform look and fewer opportunities for branding**
- **“One size fits all” format may not suit your business**

Issues to Address When Planning Your Site

- **What business tasks do you need to do online?**
- **Do your customers buy online?**
- **What information do your customers need?**
- **How quickly do you need a functioning site?**
- **How much can you budget for site creation and maintenance?**
- **How will you market your site?**
- **Are you prepared to sell internationally, or will you only sell in the USA?**
- **How often will you need to update your site?**

Learning Objectives

- Understand basic financial statements and their uses
- Understand how accounting systems aid in the production of financial statements
- Prepare a Personal Financial Statement and current Business Balance Sheet
- Use Financial Statement Analysis (ratios) to analyze Balance Sheet information
- Examine bookkeeping and recordkeeping activities and controls
- Identify internal controls and responsibilities

Financial Overview: Books, Records, and Controls Session Six

Date: _____

Due: Section V.—Part C.

Marketing Strategies

Class Opener

Instructor Topics

1. Overview of Financial Statements
2. The Balance Sheet
3. Ratio Analysis
4. The Importance of a Good Accounting System
5. Internal Controls: Accounting, Recordkeeping, and Operations



Guest Speaker

Break

- Refreshments
- Networking Activity

Work Hour

Assignment for Session Seven

WORKBOOK

Read and complete the worksheets in **Workbook Session 6**.

WRITE

Using the *Writing Your Plan* page at the end of **Workbook Session 6** as your guide, write **Section IV.—Part B. Operating Controls** and **Section VI.—Part D. Personal Financial Statement**.

TEXT

Read **Budgeting** (Chapter 37).

Learning Objectives

- Understand basic financial statements and their uses
- Understand how accounting systems aid in the production of financial statements
- Prepare a Personal Financial Statement and current Business Balance Sheet
- Use Financial Statement Analysis (ratios) to analyze Balance Sheet information
- Examine bookkeeping and recordkeeping activities and controls
- Identify internal controls and responsibilities

Financial Overview: Books, Records, and Controls Session Six

Date: _____

Due: Section V.—Part C.

Marketing Strategies

Class Opener (10 min.)

Articles of Interest, best / worst news, brain teaser, etc., or see the exercise *The Car Wash Give-Away*.

Instructor Topics (50 min.)

(10 min.)

1. Overview of Financial Statements

- Financial Statements as Communication
- Accrual vs. Cash Method
- Limitations of Financial Statements

(10 min.)

2. The Balance Sheet

- The Business Balance Sheet
- The Personal Financial Statement

(10 min.)

3. Ratio Analysis

(10 min.)

4. The Importance of a Good Accounting System

- Managerial Accounting
- Types of Accounting Systems
- Income Taxes and Payroll

(10 min.)

5. Internal Controls: Accounting, Recordkeeping, and Operations



Guest Speaker (30 min.)

- Certified public accountant (CPA) specializing in small business

Break (30 min.)

- Refreshments
- Networking Activity

Work Hour (60 min.)

- Discussion Group
- Homework Review
- Workbook Preview—Session 6

Assignment for Session Seven

WORKBOOK

Read and complete the worksheets in **Workbook Session 6**.

WRITE

Using the *Writing Your Plan* page at the end of **Workbook Session 6** as your guide, write **Section IV.—Part B. Operating Controls** and **Section VI.—Part D. Personal Financial Statement**.

TEXT

Read **Budgeting** (Chapter 37).

CLASS OPENER—THE CAR WASH GIVE-AWAY

The manager of a local eco-friendly car wash decides to give away free washes to 50 people, as a prize at a community event. He's relatively new to the job, but figures the exposure will be good for business.

The owners of the car wash have several questions for him, one of which is "Why *fifty*?"

Exercise: Have the above information on a flip chart or board. As people come into class, pick one person to be the manager, and 3 or 4 to be the owners of the car wash. Give the owners five minutes to develop questions they want to ask the manager about this promotional idea.

When all class participants have arrived, explain the scenario, have the owners ask the manager the questions, and see how well he or she does at justifying the idea. You may want to help the owners develop questions to get on the right track.

For instance:

1. How much will it cost to give 50 car washes away? What information do you need in order to figure out how much 50 car washes will cost? (Consider overhead, resources, opportunity cost, administrative cost of handling coupons and accounting, and so on.) Where can the manager get this cost information?
2. What if most winners show up during the first day after the promotion? What if long lines cause paying customers to go elsewhere?
3. Is there an expiration date for the free car wash? How will the business keep track of the winners? Suppose it's a coupon: What happens if the winner loses it? Will you keep a list of winners on file? How much time will verification and processing add to the transaction? How will this affect other customers? Remember: Most people want to get in and out of a car wash in a hurry!
4. How will the manager track the effectiveness of the promotion? It's not enough to say it's "good for business." What's the timeframe for measuring results, and what specific results do you want to see (e.g., more new business, or more frequent business from existing customers)?
5. How many days' profits is the car wash giving away? How many promotions like this one can be run before the manager is figuratively (or perhaps literally) giving the car wash away?

The Lesson: Promotional ideas, like most other decisions in a business, should be based on financial facts, not emotions or conjecture. Those financial facts come from good recordkeeping and good bookkeeping systems, which leads into topics for this session. (An exercise like this is a great tie-in from Marketing to Financial.)

OVERVIEW OF FINANCIAL STATEMENTS



NOTE: Current business owners in your class may claim to understand financial statements, but many of them don't. They have heard the terms, and would like others (particularly their banker) to believe that they understand financial information. But in reality, there tends to be a less than satisfactory understanding of this subject among small-business owners.

Because we have created a safe learning environment in this class, participants will now have the opportunity to ask more questions about financial information, without fear of embarrassment. Remind them that there are no stupid questions, only fearful people who fail to find out what they need to know. Be encouraging! This is a tough subject, and can easily overwhelm even the best of students.

Ask the question: *Who uses financial information?* (People will say bankers, financial institutions, etc. But the most important user is *you*, the business owner.) This may be a good time to go over the purposes of recordkeeping, as set forth on **OHD 6-1**.

While it is not the purpose of this course to turn participants into accountants, it is important to know some of the basics about financial statements. Our goal is to show how financial information helps you manage your business better and more profitably. For that reason, it's essential that you have a working understanding of the numbers.

What are financial statements, what information do they contain, where do the numbers come from, and how are they used (both by outsiders and—most important—by employees, managers, and owners)?

The term “financial statements” refers to accounting statements generally submitted to a lending institution or government agency. The **Income Statement**, **Balance Sheet**, **Statement of Owner's Equity**, and **Personal Financial Statement** are the most common statements lumped under this heading.

Accountants include others, such as the **Annual Statement of Cash Flows** (also known as the “Sources and Uses of Funds Statement”).

From a managerial standpoint, the **Monthly Cash Flow Statement** is perhaps the most important to the actual running of the business. This is why banks ask for the **Projected Cash Flow Statement** to be included with other financial statements.

Our focus is on managerial accounting, so our sessions emphasize not just what lending institutions require, but also what data the owner/manager needs to make smart financial business decisions.

Briefly review the statements that you'll focus on in class:

- **Balance Sheet.** This statement gives a picture of your business's financial condition on a particular day. It shows what the business owns (assets), what it owes (liabilities) and the difference between the two (owner's equity). We'll be discussing this statement in more detail later in this session.
- **Income Statement.** This statement summarizes income-producing activities over an period of time. It shows the amount of income produced from each activity, the expenses relating to the activity, and the amount left over (net income or loss). Explain the difference between a historical Income Statement and a Pro Forma (Projected) Income Statement.

- **Statement of Owner's Equity.** This is the bridge between the Income Statement and the Balance Sheet. It shows how the net income (or loss) from the Income Statement is added to any prior equity owned by the owners, and lists the new total for Owner's Equity as a single item on the Balance Sheet.
- **Annual Statement of Cash Flows.** This is a historical information statement compiled at the end of an accounting period. It shows how much cash flowed into the business and from where; how much flowed out of the business and for what; and what was left over.
- **Cash Flow Projection Statement.** This is a crucial tool for entrepreneurs, who use it to plan for the effective management of cash. Businesses that don't pay close attention to their cash flow almost always run out of cash, run out of luck, and (eventually) close their doors.

We'll be spending one session on budget development and one on cash flow projections; these will show how the pieces fit together, and how the decisions you make about your business translate into financial results.

To avoid information overload, the information about financial statements will not be presented all at once in this session. Instead, we'll start with a general overview of financial statements, and then discuss the related topics of bookkeeping, recordkeeping, and internal controls.

Financial Statements as Communication

Financial statements are a means of standardizing business information. For outside users (lenders, investors, government agencies), information needs to be presented in standardized formats, so that it can be compared to data from other, similar businesses.

For managerial use, you need to standardize the information to get feedback about decisions you have made, evaluate the performance of your business (both internally and with other similar businesses), and identify planning opportunities and needs.

To utilize financial information properly you have to understand it, which means ensuring that the sources of financial information (your books and records) are as complete and accurate as possible. Thus, ignoring your books and records eliminates the chance for good fiscal decision-making, and makes it very difficult to manage your business.

Accrual vs. Cash Method (see OHD 6-2)

Introduce the topic of **accrual vs. cash method** as a means of speaking in standardized language. Explain the two methods, and also explain the differences in bookkeeping requirements that result.

The accrual method is preferred in the accounting and IRS worlds for producing the Income Statement and the resulting tax issues. However, knowing where and how your cash is flowing is a primary management tool, as we'll see in the next session.

Understanding the terminology, and the needs of outside users of financial information, is the main point here.

Limitations of Financial Statements

It's important to understand that financial statements are not infallible. Each statement has specific purposes—and therefore, limitations. Also, emphasize that a financial statement is only as accurate as the information that goes into it. (Garbage in, garbage out!)

Historical cost principle

Financial statements are prepared using the **historical cost principle**, meaning that the amounts recorded are those at the time the transaction occurred, and are not adjusted later for changes in fair market value.

Example: Suppose you buy a piece of property that costs \$20,000. In ten years, it may have a fair market value of \$40,000. But the historical cost principle says you would carry the value on the financial statement at the original cost of \$20,000. Why? Because fair market value can vary greatly over time, but cost remains constant.

Ask the questions: *In our example above, which amount is more relevant to decision-making today, cost or fair market value? Which amount will be included in the financial statements of the business?*

This illustrates the limitations of the system, and demonstrates that the true value of a business is not always reflected in the financial statements.

THE BALANCE SHEET

A good place to start the financial discussion is with the Balance Sheet. It's important to know what you own and what you owe before deciding to move forward with an expansion/growth project or a new business. Lenders will require a statement of assets and liabilities for you (Personal Financial Statement) and for your business (Business Balance Sheet).

Remember: The lender is looking for a secondary means of paying back a loan if the business fails. Personal and Business Balance Sheets provide one view of that potential secondary source of repayment, as well as how many personal or business assets you might have to put into the business initially.

Use **OHD/Handout 6-3** to show a typical business Balance Sheet. Explain each of the numbered categories on the overhead.

Discuss the basic Balance Sheet formula: ***Assets = Liabilities + Owner's Equity***. Show how the formula works using the numbers in **OHD/Handout 6-3**.

Use **OHD 6-4** to illustrate that everything owned (assets) is either owned by creditors or by owners, which is why the formula works.

This is a good time to discuss what is not included on the Balance Sheet. If possible, show the financial statements of a familiar business that owns something valuable that does not show up on the Balance Sheet (e.g., Nike's "Swoosh" trademark or the formula for Coca-Cola). Emphasize that the Balance Sheet does not tell how much a business is worth. We'll return to the discussion of interpreting the numbers through use of ratio analysis shortly.

The Business Balance Sheet

Participants will be asked to prepare their existing Business Balance Sheet as of now. Later, they will prepare a projected Business Balance Sheet, based on the forecasts, budgets, and decisions resulting from this course.

The Personal Financial Statement

Ask participants to look at the ***Personal Financial Statement Worksheet*** in **WORKBOOK SESSION 6**. Note that this statement is actually a balance sheet showing **assets, liabilities, and net worth**. Explain that the primary difference between this statement and the Business Balance Sheet is that the Personal Financial Statement asks for market value information, which then changes the terminology from **owner's equity** to net worth. (Banks may ask for both historical and market value information in the Personal Financial Statement, and they will ask for appraisals on assets to determine the validity of market value.)



NOTE: Participants will be asked to prepare a Personal Financial Statement in **WORKBOOK SESSION 6**. They may not be comfortable turning in that information, either with the business plan or as a homework assignment. Decide how you want to handle this private information. Stress that lenders will certainly require it, but if obtaining financing is not the purpose of writing the business plan, this information does not need to be shared with the general reader.

RATIO ANALYSIS

As we discussed earlier, the tools that analyze financial information are standardized to improve communication between users of the information.

Discuss the usefulness and limitations of **ratio analysis**, which allows comparisons to be made among similar business types, industries, regions, etc. The standards developed from successful businesses are useful benchmarks for other business owners. However, some regional and business-specific adjustment must always be factored in.

Bring in a copy of *Annual Statement Studies* by Robert Morris Associates and *Key Business Ratios* by Dun & Bradstreet. Demonstrate how to find information about a particular industry. Also, note that most of the useful ratios are discussed in Chapter 44 *Financial Management*.

Use **OHD 6-5** to discuss **liquidity ratios**, which are derived from information on the Balance Sheet. Explain each ratio, and note the lenders' preferred benchmarks for the Current and Quick Ratios.

- **Current Ratio:** 2:1 is preferred.
- **Quick Ratio:** 1:1 is preferred, because this suggests the business should be able to pay all of its current liabilities with assets readily turned into cash.

Next, use **OHD 6-5** to discuss **capital structure ratios**, which are also derived from information on the Balance Sheet. Discuss the lender's position on having an abundance of debt compared to equity. Discuss how this relates to the banker's risk.

THE IMPORTANCE OF A GOOD ACCOUNTING SYSTEM

The basic purpose of any accounting system is to accumulate information in a manner that is useful to the owner, and can be readily translated into standardized financial information for outside users.

Ask the question: *What do you want from your accounting system?* Write answers on a flip chart or board. Then, use **OHD 6-6** to discuss how a good accounting system is responsive to those needs.

Bring in examples of invoices, purchase orders, and other forms. Ask students which forms their businesses use, and how. How many copies are made? Who gets the copies? Ask one or more students to describe their filing system.

Discuss the modules of comprehensive accounting systems (see **OHD 6-7**). Point out that each module deals with a certain type of financial information, and that in large organizations there are often separate departments assigned to handling those transactions. This separation of responsibility will tie in with your discussion of **internal controls** later in the session.

You may wish to bring in an **organization chart** for a large business, and show how the various accounting departments relate to each other. Although small businesses don't have as many accounting departments, the same accounting functions must be performed.

In Session 8, you will discuss accounts receivable management, including the aging of receivables. Now is a good time to introduce the idea of **subsidiary ledgers**.

Managerial Accounting

Well-run, profitable businesses are usually owned by people who understand and use managerial accounting techniques to their benefit.

The greatest benefit of a good accounting system is the ability to accumulate information that will help you manage your business and your money more effectively.

A good system:

- Provides detailed information about cost centers and revenue centers, which allows you to analyze the profitability of these segments of your business, as well as your business as a whole.
- Accumulates information by budget item, so you can easily compare your projections to reality.
- Does not have to include a big computer and fancy programs. There are good manual accounting systems available for smaller businesses.

Types of Accounting Systems

Give a brief overview of various accounting systems, from simple paper systems to online "cloud computing" systems. (You may wish to postpone more discussion until the Work Hour, or have your guest speaker handle this topic entirely.)

How to choose an accounting system (See OHD 6-8)

Discuss considerations in choosing a system. Pay particular attention to questions one should ask before purchasing a computerized accounting system for office use, or paying a host site for **software as a service (SaaS)**.

Have participants brainstorm questions for the software sales representatives to respond to during the Work Hour. Relate these questions to what the students desire from their accounting system.

Importance of owner involvement

Explain to the class that they must be intimately involved with their accounting systems, and suggest ways to make that involvement more efficient and effective. If possible, cite examples of employee embezzlement that could have been prevented by closer owner supervision. Always emphasize the usefulness of accounting knowledge to company management.

Income Taxes (see OHD 6-9)

Explain how a good accounting system can take some of the pain out of income tax preparation, and how good recordkeeping may benefit the taxpayer by allowing the accountant to have as much information as possible to determine availability of tax benefits.

The “shoebox method” of accounting does not allow the accountant to do much more than spend his or her time sorting out information, rather than analyzing strategic accounting positions for the entrepreneur. This is inefficient, and very expensive!

Bringing up the topic of income taxes can raise questions that last until the next day. You will have to control this discussion carefully. State at the outset that your purpose is not to answer all their tax questions or tell them how to save thousands of dollars. It is to point out that the recordkeeping requirements and forms required for income tax information differ, depending on the organizational structure of the business. (Also, stress the importance of relying on their own accounting professionals for decisions relating to accounting and taxes.)

Forms and due dates

Reiterate the point that good accounting and recordkeeping systems help the entrepreneur keep track of key responsibilities relating to financial issues. Discuss the consequences of failure to file taxes, failure to file on time, and incorrect reporting.

The Internal Revenue Service has many excellent brochures explaining tax laws. They explain when and how to file tax returns and when to make estimated tax payments. Most of the forms are now downloadable, so suggest visiting the IRS Website and learning to use that resource.

Consider passing out copies of **Schedule C, Form 1065**, and **Form 1120**. Emphasize the importance of getting help from a tax accountant.

Recordkeeping requirements (See OHD/Handout 6-10)

Review how long records should be kept. Talk about the income tax statute of limitations and how it affects record retention.

Payroll (see OHD 6-11 and 6-12)

Again, gear this discussion to the importance of a good accounting system. Payroll for the very small business is not a particularly cumbersome task, as long as the paperwork requirements are understood and met. However, payroll for an organization with several employees on different wage scales can become very time consuming! This is why some businesses outsource payroll functions to companies that specialize in it.

There are payroll modules available with many computerized accounting systems. Have your Work Hour expert address these, but keep this discussion brief and focused on the importance of paying attention to recordkeeping functions and responsibilities.

Employer and employee taxes

Go over the various payroll taxes levied on employers and employees. **Ask the questions:** *Who is responsible for preparing payroll and making tax payments in your organization? Is that responsibility properly placed for good internal control?*

Forms and due dates

The Internal Revenue Service has brochures explaining when and how to file payroll tax returns and when to pay payroll taxes. You may wish to obtain copies of **Circular E**.

Discuss the consequences of failure to file, failure to file on time, and incorrect reporting. There are many cases of employers going out of business after failing to pay payroll taxes. Perhaps you have a well-known local example to illustrate this.

Pass around examples of **Form 941**, **Form 940**, **Form 8109**, and **Form W-2**.

Recordkeeping requirements

Bring in examples of payroll registers, payroll authorizations, and employee earnings records. Again, refer back to how long payroll records must be kept.

INTERNAL CONTROLS: ACCOUNTING, RECORDKEEPING, AND OPERATIONS

The control environment you establish within your business influences the effectiveness of the business operations and profitability. Key internal control tasks include deciding who is responsible for performing financial duties, and who monitors these activities.

Use **OHD 6-13** to discuss the **internal controls** necessary in a typical business. Compare the control environment to a checks and balances system. Discuss the possible consequences of delegating all bookkeeping and accounting activities without owner monitoring and review. Discuss the need for an adequate **audit trail**, and how that ties in to a good accounting system.

WORKBOOK SESSION 6 asks participants to identify business activities that require internal controls. **Exercise:** Have participants brainstorm a list, and log answers on a flip chart or board. **Ask the question:** *How can your business's profitability be affected by a lack of internal controls?*

Then, have participants look at the ***Other Operating Controls Worksheet*** and see if any of the items listed still need discussing. (If you're running short of time, this discussion can continue in the Work Hour.)

Discuss how very small businesses can set up controls for various business functions without hiring additional personnel. (An example would be having an accountant responsible for monitoring recordkeeping functions relating to income tax and payroll.)

Ask the question: *What are the possible consequences of having one person control everything?*

GUEST SPEAKER



CPA specializing in small business

Consider having the guest speaker cover one of the instructor lecture topics, so that you can spend more time on other subjects. For example, you may wish the guest speaker to give an introduction to payroll accounting requirements.

Prepare some questions that you would like your guest speaker to address, and give them to your guest well in advance of class. Suggested questions are listed below in three categories: accounting services, incomes taxes, and payroll.

Accounting services

- What types of services do accounting firms offer?
- What are the major problems you encounter when providing accounting services to small business?
- What can entrepreneurs do to minimize the cost of accounting services?
- Do all entrepreneurs need an accountant?
- How should entrepreneurs choose their accountant?

Income taxes

- What are the major tax problems you encounter with small businesses?
- What three things regarding income taxes would you like every one of your clients to remember?
- What role does tax planning play in business decisions? Please give some examples.
- How scary is an IRS audit? Who gets audited and why?
- What can entrepreneurs do to help minimize income taxes?

Payroll

- What are the recordkeeping requirements for payroll?
- What kinds of services do accounting firms offer regarding payroll?
- What are the three most common errors employers make regarding payroll?
- What suggestions can you give to make payroll accounting easier?

WORK HOUR SUGGESTIONS

Show and Tell: Demonstrations of Various Accounting Systems

Have several examples of accounting systems available for students to examine. You may include an Ideal or Economic check register system, a more complete set of books, write-it-once systems, and computerized or Web-based accounting systems. If possible, find a sales representative or an experienced software user for these software products who is willing to come and give a short demonstration on several different systems.

Homework Review—Session 5

Answer questions about the Marketing Strategies homework assignment, and review class progress on completing the Marketing Plan section of the business plan.

This is a typical place for participants to bog down, particularly if they are doing as much market research as they should. Consider allowing another week to complete the Marketing Plan section.

Also, if you did not add an additional week after Session 5, consider whether this would be a good time to hold an additional session to help with the Marketing Plan completion, or whether it would be helpful to add an extra week before continuing on with the Financial Section information.

Workbook Preview—Session 6

You have already looked at the ***Other Operating Controls Worksheet*** and the ***Personal Financial Statement Worksheet*** during the Instructor Topics stage of class. Decide if more discussion time is needed on the ***Other Operating Controls Worksheet***.

Also, have participants look at the ***Business Balance Sheet Worksheet***, and make sure they understand they will be completing **only** the left-hand side at this time (i.e., the current information).

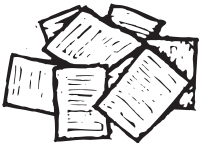
Assignment Review

Review the *Writing Your Plan* page at the end of **WORKBOOK SESSION 6**. Again, address the issue of whether or not you want the Personal Financial Statement turned in as homework. Have participants look at the *NxLevel® Sample Business Plans* to see how others have presented the written sections.

OVERHEADS AND HANDOUTS FOR SESSION SIX

OHD	6-1	Why Keep Records?
OHD/Handout	6-2	Accrual vs. Cash Accounting
OHD/Handout	6-3	Sample Balance Sheet
OHD	6-4	Owner's Equity
OHD	6-5	Ratio Analysis
OHD	6-6	What Makes A Good Accounting System?
OHD	6-7	Accounting Journals
OHD	6-8	Computerized Accounting Systems
OHD	6-9	Income Taxes
OHD/Handout	6-10	Record Retention Guidelines
OHD	6-11	Payroll Taxes
OHD	6-12	Payroll Tax Reporting
OHD	6-13	Internal Controls

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION SIX



- Sample Balance Sheets from well-known public companies
- Introductory and sample pages from *Annual Statement Studies* by Robert Morris Associates and *Key Business Ratios* by Dun & Bradstreet
- Articles about using financial statements and managerial accounting
- Samples of basic business tax forms (Schedule C, Form 1065, Form 1120)
- Samples of basic payroll reporting forms (941, 940, 8109, 1099, W-2, and W-3)
- Articles about managing internal operations and control systems

You have the option of finding these articles/publications for use in class, or asking students to search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes on the following page.

Supplemental materials used for Session Six

Notes

Why Keep Records?

Financial Management

- **To provide financial information about your business**
- **To produce financial statements**
- **To provide tax preparation information**
- **To provide borrowing information**
- **To pay and/or collect bills when due**
- **To control cash flow**

Internal Controls

- **To watch costs and budgets**
- **To prevent theft**

Legal

- **To document events in case of lawsuits**

Management Decisions

- **To provide planning information**
- **To monitor business progress**

Accrual vs. Cash Accounting

Accrual Method

- ◆ **Record revenue and expenses when work is done, even though cash may not have been collected**
- ◆ **Usually preferred by accountants and the IRS**

Cash Method

- ◆ **Record revenue and expenses when cash is received, even though work may not be complete**
- ◆ **Usually preferred by business owners**

Sample Balance Sheet

Your Business
Balance Sheet
As of December 31, 2009

ASSETS:

Current Assets: ❶		
Cash	\$ 35,000	
Accounts receivable	70,000	
Inventory	120,000	
Other	<u>12,000</u>	\$ 237,000
Property, Plant & Equipment: ❷		
Land	\$ 80,000	
Buildings	250,000	
Equipment	175,000	
Less: Accumulated Depreciation	<u>(105,000) ❸</u>	400,000
Intangible Assets: ❹		
Patents	\$10,000	
Goodwill	<u>60,000 ❺</u>	70,000
TOTAL ASSETS		\$ 707,000

LIABILITIES:

Current Liabilities: ❻		
Accounts payable	\$ 45,000	
Wages payable	32,000	
Other	<u>6,000</u>	\$ 83,000
Long-term Liabilities: ❼		
Notes payable		\$ 245,000
TOTAL LIABILITIES		\$ 328,000

OWNER'S EQUITY:

TOTAL LIABILITIES AND EQUITY		\$ 379,000
		\$ 707,000 ❽

Owner's Equity



Ratio Analysis

Liquidity Ratios

Liquidity refers to a business's short-term ability to pay current and unexpected debts.

Current Ratio

Current assets ÷ Current liabilities
(2:1 is preferred)

Quick Ratio

(Cash + Marketable securities + Receivables)
÷ Current liabilities (1:1 is preferred)

Capital Structure Ratios

Debt to Equity Ratio

Total debt ÷ Total equity

Debt to Total Assets

Total debt ÷ Total assets

What Makes a Good Accounting System?

- ◆ **It works for you!**
- ◆ **The right information at the right cost**
- ◆ **Keep it simple**
- ◆ **The business owner is involved**
- ◆ **Good internal controls**

Accounting Journals

Sales Journal

- **Sales on account**

Purchases Journal

- **Purchases on account**

Cash Receipts Journal

- **Cash received**

Cash Disbursements Journal

- **Cash paid out**

General Journal

- **Other transactions**

Computerized Accounting Systems

Be sure you find out about:

- ✓ **Hardware requirements**
- ✓ **Ability to modify**
- ✓ **Support services**
- ✓ **Scaleability / Ability to expand**
- ✓ **User friendliness**
- ✓ **Training / Help desk**
- ✓ **Reports and documents**
- ✓ **Personnel requirements**
- ✓ **Local use (other businesses using this software)**
- ✓ **Web-based options**

Income Taxes

Sole Proprietorship

- **The owner pays tax**
- **Schedule C**

Partnership

- **The partners pay tax**
- **Form 1065**

Corporation

- **The Corporation pays tax**
- **Form 1120**

LLC

- **Taxed as a Partnership**

Record Retention Guidelines

<u>Type of Record</u>	<u>Retention Period</u>
Bank statements	7 years
Business licenses	Until expired
Cash register tapes	3 years
Check registers	Permanent
Canceled checks	3 years
Financial statements	Permanent
General ledger	Permanent
Inventory records	7 years
Invoices (A/P)	3 years
Invoices (A/R)	3 years
Phone/utility bills	3-6 years
Property/plant records	Permanent
Purchase orders	3 years
Receiving reports	3 years
Tax returns (& related backup)	10 years minimum
Time cards or tickets	3 years
Travel expense records	7 years
Property deeds/titles	Keep while you own

Other: _____

Payroll Taxes

Federal Income Tax

- **Paid by employee**

State Income Tax

- **Paid by employee**

Social Security

- **Paid by employee & employer**

State & Federal Unemployment

- **Paid by employer**

Payroll Tax Reporting

Form 941

- **To report federal income and social security taxes**

Form 940

- **To report federal unemployment taxes**

Form 8109

- **To make deposits**

Form W-2

- **To detail employee earnings**

Form 1099

- **To report independent contractor wages**

Internal Controls

- **The control environment**
- **Authorization**
- **Segregation of duties**
- **Physical controls**
- **Tickler system**
- **Audit trail**
- **Monitoring and review**

Learning Objectives

- Understand budgeting and the role of assumptions
- Explore how budgets provide performance feedback
- Prepare budgets, including Sales Forecast, Cost of Projected Product Units Sold, Fixed Assets, Growth/Start-Up Expenses, and Miscellaneous Expenses
- Review and adjust budgets prepared in earlier sessions

Managing Your Money: Financial Planning and Budgets Session Seven

Date: _____

Due: Section IV.—Part B._____

and Section VI.—Part D._____

Class Opener

Instructor Topics

1. The Basics of Budgeting
2. How to Prepare Your Budgets
3. Feedback From Your Budgets



Guest Speaker

Break

- Refreshments
- Networking Activity

Work Hour

Assignment for Session Eight

WORKBOOK Read and complete the worksheets in **Workbook Session 7**.

WRITE Using the *Writing Your Plan* page at the end of **Workbook Session 7** as your guide, complete **Section VI. The Financial Plan—Part A**.

TEXT Read **Cash Flow Management** (Chapter 38).

Learning Objectives

- Understand budgeting and the role of assumptions
- Explore how budgets provide performance feedback
- Prepare budgets, including Sales Forecast, Cost of Projected Product Units Sold, Fixed Assets, Growth/Start-Up Expenses, and Miscellaneous Expenses
- Review and adjust budgets prepared in earlier sessions

Managing Your Money: Financial Planning and Budgets Session Seven

Date: _____

Due: Section IV.—Part B.

and Section VI.—Part D.

Class Opener (10 min.)

Articles of interest, best news / worst news, brain teasers, etc., or see the exercise *Eating Out*.

Instructor Topics (50 min.)

(15 min.)

1. The Basics of Budgeting

- Why Should You Budget?
- What Makes a Good Budgeting System?
- The Role of Assumptions

(25 min.)

2. How to Prepare Your Budgets

- Sales Forecasts
- Cost of Projected Product Units Sold Budget
- Fixed Assets Budget
- Growth (or Start-Up) Expenses Budget
- Miscellaneous and Operating Expenses Budgets
- Budgeted Financial Statements

(10 min.)

3. Feedback From Your Budgets

- Performance Reports and Variance Analysis
- Comparison to Industry Standards and Other Performance Measures



Guest Speaker (30 min.)

- Controller for a business with an established budgeting system

Break (30 min.)

- Refreshments
- Networking Activity

Work Hour (60 min.)

- Worksheet Explanation and Pricing Worksheets
- Homework Review
- Workbook Preview—Session 7

Assignment for Session Eight

WORKBOOK

Read and complete the worksheets in **Workbook Session 7**.

WRITE

Using the *Writing Your Plan* page at the end of **Workbook Session 7** as your guide, complete **Section VI. The Financial Plan—Part A**.

TEXT

Read **Cash Flow Management** (Chapter 38).

Additional Instructor Notes

Session Seven

CLASS OPENER— EATING OUT

Before class starts, write the following question on a board or flip chart: *How much do you spend each month on eating out?* Then, list each class participant's name below, so they have a place to fill in their answers.

Answers you can anticipate include: *I don't have a clue. What do you mean by eating out? Does that include a snack at the Mini Mart? Do you mean me eating out, or the whole family?* There will also be students who take a stab at a specific dollar amount.

After all participants have arrived, review the answers and start asking pertinent questions like:

- *Have you ever checked to see how much money you spend eating out (both what you spend on yourself, and what your family spends)?*
- *Do you know what you can afford to spend eating out, or do you just quit going out when there's no more money?*
- *Do you know how much money comes into your household spending budget? If so, then why don't you know how much goes out of the budget for this category of expense?*

Keep the mood light! We're not looking to embarrass anyone with this exercise. The goal is to make a point about how little thought sometimes goes into our personal spending decisions, and encourage the class to think about what would happen if you ran a business that way.

This exercise introduces the necessity for budgets, and for justifying those budgets (assumptions) when addressing spending and income issues in business.

THE BASICS OF BUDGETING

Budgeting is projecting or forecasting how much money you plan to spend on expense items during an upcoming period of time, and how much money you plan to receive in income-producing activities during that same period of time.

Determining specific categories of **expenses** and **revenues**, assigning projected dollar amounts, and documenting the reasons behind your projections (assumptions) are all elements of the budgeting process.

In Session Two, you talked about the planning cycle using **OHD 2-2**. This is a good time for a review, because it demonstrates the importance of budgeting to that process.

Why Should You Budget? (see OHD 7-1)

Being proactive rather than reactive

This is a good time for a story or two about businesses that did not budget and had unpleasant surprises during the year.

It's also a good time to discuss how budgeting helps you plan, but does not magically cause things to turn out the way you want them to. Budgeting is a projection of the future and will likely have some inaccuracies. That said, it does provide something against which to measure your progress. It can be thought of as a sort of scorecard.

Providing benchmarks

Ask the question: *How will you know if your business performance has been good or bad? Is it better than or worse than expected?*

Without budgets, no benchmarks exist for this analysis.

What Makes a Good Budgeting System? (see OHD 7-2)

The involvement of the owner and key employees is essential. Ask participants if they currently use a budgeting system in their business or personal life, and if so, who is involved? Ask if they have ever been required to adhere to a budget that someone else prepared without their input.

Example: The head of a household prepares a budget without input or discussion, and expects other family members to abide. As an adult family member, how do you feel?

If some participants do prepare budgets, ask them if those budgets get used during the year. If so, how? If not, why not?

The Role of Assumptions

Assumptions are the justifications or reasons that explain why budgets contain the dollar amounts you assigned to them. Writing them down helps you keep track of why you chose to allocate a certain dollar amount to a certain item in the budget. This allows you to go back later and analyze your decisions.

Exercise: Ask participants to name all of the types of budgets they think they might need in their business. Log answers on a board or flip chart. Then, have them brainstorm the types of assumptions that must be made to prepare these budgets.

Give an example of an assumption that sounds good but doesn't actually reflect the true situation. Talk about how a false assumption would affect the budgets, and any actions the business bases on them.

HOW TO PREPARE YOUR BUDGETS

Sales Forecasts (see OHD/Handout 7-3)

In Session 4, we discussed **Annual Sales Projections** from the marketing perspective. Now, we'll look at them from the financial perspective.

Emphasize that the **sales forecast** is the foundation upon which other budgets are built.

Discuss the **sales mix**, and how to account for this in sales forecasting. For many smaller businesses, an average total sales forecast is sufficient. However, the business may wish to budget for individual products or product lines, so that the budgeted amounts will allow for later comparison to actual results, with enough detail to be meaningful. If the business prepares budgets by product line, but fails to capture actual sales by product line, much of the value of the budget process will be lost.

Ask participants to look at the **Sales Forecast Worksheet** in **WORKBOOK SESSION 7** while you show and discuss **OHD/Handout 7-3**.

Existing businesses that plan to grow by increasing market share have some history on which to build when trying to prepare this budget. By contrast, businesses that are expanding into new product lines, or adding a new location, may find it difficult to gather the information they need to begin forecasting.

One solution is to ask media reps in the area for industry-specific sales cycle information. Some may have information that breaks annual sales down into the percentage of sales per month, listed by specific business or product types. Participants could then use their Projected Annual Sales Volume from Session 4, and apply these monthly percentages to begin their sales forecasting.



NOTE: Since this class is geared primarily to existing businesses, we assume that most participants have made pricing decisions that they can use in the sales forecasting process. However, there may be some participants who haven't yet dealt with pricing, or who truly need to reexamine their pricing structure.

Accordingly, part of the Work Hour can be spent utilizing the special pricing worksheets found at the end of these notes (before the OHD/Handouts). Since some pricing concepts rely on information from other expense budgets, it's usually more productive to delay the detailed pricing discussion until the Work Hour, by which time you should have completed your discussion of expense budgets.

Pricing and break-even will be discussed again in Session 8, which will include an in-class exercise and an extra worksheet handout to help illustrate the numbers.

The Cost of Projected Product Units Sold Budget (see OHD/Handout 7-4)



NOTE: Although service businesses don't have to complete a **Cost of Projected Product Units Sold Worksheet**, it won't hurt for them to understand the discussion, in case they decide to combine products with their services at a later date.

Ask participants to look at the **Cost of Projected Product Units Sold Worksheet** in **WORKBOOK SESSION 7** while you show and discuss **OHD/Handout 7-4**. Point out that forecasting the sales of product units begins the budgeting process for purchases of that product.

Ask the questions: *How many of you have guessed at quantities when buying your inventory? What was the result?* Discuss how often guessing leads to buying too much or too little, either of which can be devastating to a business.

Existing businesses may be able to use historic information to determine the relationship between last year's sales and cost of product units sold by looking at the Cost of Goods Sold entry on their Income Statement.

- Explain that the term **Cost of Projected Product Units Sold** is being used here to associate the direct costs of the product units with the projected units sold on the **Sales Forecasting Worksheet**.
- Explain that **Cost of Goods Sold (COGS)** is an accounting term that refers to your beginning inventory, plus your purchases during the year (including related costs like freight), less your ending inventory. The result is the cost of the inventory you actually sold.
- What percentage of Annual Sales is COGS, on that same Income Statement? This figure can be compared to the Cost of Projected Product Units Sold, and related to the Annual Total Sales Forecast from this session to see how closely they match. (Although we haven't talked in depth about the Income Statement, you could use **OHD 9-1** from Session 9 to show the COGS, and explain how to calculate the percentage of COGS to Sales.)
- Using the COGS percentage as a planning tool for purchases that relate to sales works well if you have a large number of total products in your product group, where it would be very tedious to project individual sales and cost projections for each item. It also works well if you have accurate historic information, or reliable industry information, that produces an accurate COGS percentage.
- The **WORKBOOK** shows participants how to calculate the Cost of Projected Product Units Sold to Annual Total Sales Forecast percentage, and compare it to the historic COGS percentage.

Fixed Assets Budget

It's just as important to plan for the purchase of fixed assets as for any other expense. In fact, it may be more important if the purchases are large, or if cash flow will be greatly affected by the principal and interest expenses you'll incur.

- Define **fixed assets** (assets with a useful life of longer than one year).
- Define **useful life**. Discuss the IRS definition of useful life versus the practical definition. Consider bringing in an IRS depreciation booklet to discuss the useful lives of various asset groups.
- Define **depreciation**. For this discussion, explain that the original purpose of depreciation was to let a business set aside money for replacement of assets, by creating a non-cash expense that reduces taxable business income.
- Note that purchasing new vs. used assets, leasing instead of purchasing, and not purchasing can all affect cash flow. We'll discuss this further in the next session.

Have participants look at the ***Fixed Assets Worksheet***. They will need to project the fixed assets they will be purchasing, and calculate the depreciation on both new and existing assets. They can return to this worksheet in Session 8, after seeing how their decisions affect their projected cash flow. **Remind participants they will have to research the cost of fixed assets, not guess!**

Growth (or Start-Up) Expenses Budget

We present growth expenses on a separate budget because the majority of these costs will be one-time expenses related specifically to growing, expanding, or starting a business. Isolating these expenses prepares the entrepreneur for higher costs during the early growth or start-up stages, without distorting other budgets.

Use **OHD/Handout 7-5** to discuss typical growth/start-up expenses. Have participants brainstorm other expenses they might incur. Remind them that these are one-time expenses, and are not to be confused with normal, ongoing expense budgets.

Example: Item #6—Legal Fees represents the one-time legal fees associated with this phase, not ongoing legal expenses.

Ask the question: *How will these expenses be funded?*

Miscellaneous Expenses Budget

While the worksheet provided covers most of the normal expenses a business will incur, the participants will need to customize this budget.

Ask the question: *What other expenses will your business incur?* Log answers on a board or flip chart. Point out that a budget has to be prepared even for little expenses. Little things can turn into very big things if you keep forgetting to budget for miscellaneous expenses!

Example: The owner of a sporting goods diligently budgeted expenses for his new ski repair service, including new equipment and additional labor. However, there was no budget for supplies. After all, they were just little things like ski wax, aprons for the technicians, glue for remounting, and so on. At the end of the first year, the shop owner was thrilled with his level of sales, but dismayed to discover that all those “little things” added up to more than \$5,000 of unbudgeted expense!

Have participants look at the ***Miscellaneous Expenses Worksheet*** and make notes about the expenses for which they will need to budget.

Operating Expenses Budget

Ask the question: *So, what is the Operating Expenses Budget?* (See what kind of responses or guesses you get, then explain.)

You have already prepared the individual pieces that are included in this budget. Now, we’ll take a look at all of the budget worksheets you will have prepared after this session, and determine which ones belong in the Operating Expenses Budget.

Use **OHD 7-6** to show all of the worksheets that have already been prepared. After determining which worksheets reflect operating expenses, discuss which expenses change with the level of product sold or produced (**variable expenses**), and which remain constant regardless of sales or production level (**fixed expenses**). Which reflect mixed costs?

Budgeted Financial Statements

These are financial statements based on budgeted projections, but in the same form as a historic financial statement. Along with the Cash Flow Projections, participants will be preparing a Projected Income Statement and Balance Sheet, which will enable them to see the results of their budgetary decisions.

FEEDBACK FROM YOUR BUDGETS

Performance Reports and Variance Analysis (see OHD/Handout 7-7)

Emphasize the importance of using budgets after they are prepared! Comparison to actual results provides vital information for managing the business.

Discuss the danger of jumping to conclusions when reviewing variances between forecasted and actual numbers. The variances in several budget line items may be related to one incident, or one management decision. Caution participants to look below the surface and investigate the causes of variances (this goes for positive *and* negative variances).

Comparison to Industry Standards

Discuss comparing forecasted budgets with industry information and standards. Suggest again that trade associations be contacted for their “Cost of Doing Business Surveys,” which give percentage-based comparisons of expense items relating to sales levels, sales per square foot, sales per employee, and so forth.

The Robert Morris studies could also serve as a resource for comparison. Discuss the need to adjust for cost of living in specific areas vs. national averages, particularly in rural markets.

Other Performance Measures

Tracking performance measures can be very helpful for management. What performance measures (benchmarks) do participants currently track, and what measures would be useful for them? What performance measures do others in their industry track?

You’ve already started working with **ratio analysis**, so be sure to mention it again here. What do these performance measures tell management? How can they find out more about performance measures in their industry?

**Controller for a business with an established budgeting system**

Prepare some questions that you would like your guest speaker to address, and give them to your guest well in advance of class.

Suggestions:

- How does your company's budgeting system work? When is it done and who is involved?
- How do you make the assumptions necessary to prepare your budgets?
- How do you use your budgets for decision making?
- What are three things you think most companies do right when it comes to budgeting? Wrong?
- How are variances best handled?

WORK HOUR SUGGESTIONS

Worksheet Explanations

Use the ***Fixed Assets Worksheet*** in **WORKBOOK SESSION 7**. Develop a simple scenario, and show how depreciation is calculated. Have the IRS regulations about straight-line depreciation available, and be prepared to discuss other methods of depreciation if asked.

Use the ***Cost of Projected Product Units Sold Worksheet*** and ***Sales Forecast Worksheet*** in **WORKBOOK SESSION 7**. Develop a simple scenario, then show how to calculate the Cost of Projected Product Units Sold percentage.

Example: You have projected sales at \$10,000. Cost of Product Units Sold for those sales is \$6,600. What is your Cost of Projected Product Units Sold percentage? How does this number compare to the industry Cost of Goods Sold percentage? Where will you find that industry information?

Pricing Worksheets

NOTE: There are three worksheets at the end of this section: ***Retail Product Pricing***, ***Service Pricing***, and ***Manufacturing Pricing***. Make copies for your participants and yourself. Before class, familiarize yourself with these worksheets by developing your own simple scenario and working through the numbers. The worksheets are self-explanatory, and combine several crucial activities into one concise exercise. Studies show that pricing is a problem for small businesses, so emphasize the importance of learning this skill.

Now that you've discussed budgets, as well as variable and fixed costs, you can introduce the supplemental worksheets on specific pricing strategies, which address covering costs and making a profit. Refer to your pricing notes from Session 5, and review pricing strategies. While these strategies are important to consider, the real bottom line is: *Can I produce the product in the time allotted (hours available to work), at a price that customers will pay, and still earn my desired profit margin?*

The pricing worksheets will lead participants through logging budgeted costs, and determining desired profit motives. They also introduce the importance of having a realistic **break-even point**. The discussion of pricing and break-even can be started here, but you will continue with it in Session 8.

Here are some points that will help you guide the discussion.

Retail Product Worksheet. Wholesale and retail products tend to have identifiable variable costs, and these costs tend to guide pricing decisions.

- **Step 1** asks that variable costs be identified as a base point.
- **Step 2** provides a place to enter competitors' prices for comparison purposes (combining marketing and financial information is crucial in determining appropriate pricing). It also asks for a Proposed Price for the product.
- **Step 3** asks for operating costs, broken down by expense line items. Participants should have this information on worksheets developed previously.
- **Step 4** introduces the concept of **contribution margin** (at the proposed price, how much does each unit contribute to paying for the fixed operating costs?) and the calculation of the **break-even point**. Questions to consider include: *Is this a realistic break-even point? Can you sell this number of units?*

Manufacturing Pricing Worksheet. The same steps appear on this worksheet, but participants also need to consider an additional question (see Step 5): *Does my proposed price at wholesale allow for realistic pricing at retail?*

Related questions include: *What will the market bear? How much of a profit margin do retailers normally expect to earn? How many intermediaries will the product go through before reaching the end user (i.e., how many times will it be marked up)?*

Services Pricing Worksheet

- **Step 1** calculates how many billable hours are available to the service provider in a year. First, calculate how many hours you want to work per week, and then subtract the hours that are dedicated to non-billable activities. (This will be an eye-opening exercise for any participants who have not previously analyzed their available time in this way.)
- **Step 2** requires identification of labor and non-labor costs. Labor costs should be separated from non-labor fixed operating costs, so that the participant can clearly see how labor related to the service affects the pricing decision. There is also a line provided for other direct project costs (e.g., renting a specific machine in order to provide the service). While this would not be an ongoing operating cost, it does need to be identified and included in these calculations.

- **Step 3** details the steps required to calculate a Rate per Hour based on the total billable hours available, and reminds the participant to compare it with what the market will bear.
- **Step 4** then asks for a re-calculation based on a realistic estimation of how many hours can actually be sold (as opposed to hours that are available to sell). Somewhere in between the rates calculated in Steps 3 and 4 may be a more realistic rate. Again, comparing with rates currently being charged in similar markets will be helpful. Some obvious costs to re-examine if pricing is too high include owner's salary, other labor costs, and the more discretionary budgets like advertising, travel, etc.

Exercise: After discussing the elements of the worksheets, have participants divide into separate groups of retail, service, and manufacturing businesses. Using the worksheets as guides, have each group spend approximately 10 minutes discussing the challenges they face in pricing, and whether or not the worksheets might help them identify the cause of pricing dilemmas. Have each group report on the pricing challenges, and answer any questions that come up regarding how to use the worksheets.

Remind participants to make copies of the blank worksheets for further use, and to bring them to the next class for further discussion.



NOTE: Your class configuration will determine how much emphasis you should put on pricing issues. After participants have worked with these worksheets on their own, you may find they have additional questions and comments that would be appropriate in Session 8, which continues the discussion of break-even and pricing for profit.

Homework Review

Ask the question: *Did anyone discover any areas of your business that should have controls in place that you didn't think of earlier? Discuss.*

Workbook Preview—Workbook Session 7

You already covered a good deal of this session's worksheets in class. Remind participants to look over the worksheets they prepared in earlier sessions (Occupancy Expenses, Salaries/Wages, Benefits & Taxes, etc.) to see if their assumptions are still valid.

Assignment Review

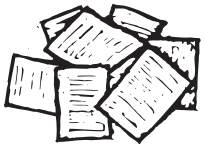
The *Writing Your Plan* assignment is simply to complete and review the worksheets. Review that page with participants. Remind them that they will not be able to do the Workbook assignment for the next session (Cash Flow Projections) until these worksheets are completed.

OVERHEADS AND HANDOUTS FOR SESSION SEVEN

OHD	7-1	Why Should You Budget?
OHD	7-2	What Makes a Good Budgeting System?
OHD/Handout	7-3	Sales Forecast Example
OHD/Handout	7-4	Cost of Product Units Sold Budget
OHD/Handout	7-5	Growth (or Start-Up) Expenses
OHD	7-6	Financial Worksheets Completed
OHD/Handout	7-7	Performance Report Example

(Also see the **Retail, Service and Manufacturing Pricing Worksheets** following these notes.)

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION SEVEN



- SBA handouts on budgeting
- Sample performance reports
- Sample budgets
- Articles about budgeting
- IRS depreciation publications

You have the option of finding these articles/publications for use in class, or asking students to search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes below.

Supplemental materials used for Session Seven

Notes

Retail Product Pricing Worksheet

1. Variable Costs (per unit) (description)
- | | | |
|----------------|-------|----------|
| Inventory Cost | _____ | \$ _____ |
| Freight | _____ | _____ |
| Sales Costs | _____ | _____ |
| Other | _____ | _____ |

Total Variable Costs per unit

\$ _____

2. Competitors' Prices (per unit) for comparison

Competitor A: _____ Price \$ _____
Unique Features and Benefits: _____

Competitor B: _____ Price \$ _____
Unique Features and Benefits: _____

Competitor C: _____ Price \$ _____
Unique Features and Benefits: _____

Proposed Retail Price for my product

\$ _____

3. Operating Costs (including Loan Repayment)

Monthly

Annual

Salaries and wages (employees)	\$ _____	\$ _____
Owner's salary or draw	_____	_____
Payroll-related taxes	_____	_____
Other fringe benefits (Health Ins/Retirement)	_____	_____
Outside Services:		
Legal	_____	_____
Accounting	_____	_____
Other: _____	_____	_____
Insurance	_____	_____
Marketing / Promotion	_____	_____
Occupancy Expenses:		
Rent	_____	_____
Utilities (gas / electric)	_____	_____
Phone	_____	_____
Miscellaneous:		
Office supplies and postage	_____	_____
Dues, fees, subscriptions	_____	_____
Travel and entertainment	_____	_____
Other: _____	_____	_____
Interest expense	_____	_____
Principle payments (loan)	_____	_____
Other: _____	_____	_____

TOTAL OPERATING COSTS

\$ _____

\$ _____

4. Calculate Break-Even Point

Retail Price per unit _____ minus Variable Costs per unit _____ = _____
Contribution Margin (CM)

Operating Costs _____ divided by CM _____ = _____
of Units to Break Even \$ to Break-Even
(Units x Selling price)

If the Break-Even Point is beyond your capacity to produce or sell, your options are 1) increase price;
2) decrease variable costs; 3) decrease operating costs.

REMEMBER: Break-even only covers costs! You will have to sell more to make a profit.

Services Pricing Worksheet

1. Determine Billable Hours

Total Hours (Annual)

Potential Hours Available to work: _____ weeks @ _____ hours per week _____
 Less Holidays: _____ days @ _____ hours per day _____
 Less Vacation: _____ days @ _____ hours per day _____
 Less Sick Time: _____ days @ _____ hours per day _____
 Less Non-Billable Work Hours:
 (Administration, billing, ordering, phone calls, customer service, training)
 (describe: _____) _____ hours per year _____
 Less Marketing
 & Administration: _____ weeks @ _____ hours per week _____

TOTAL BILLABLE HOURS

2. Operating Costs

Labor Costs and Other Direct Project Costs: Annual
 Owners' salary or draw \$ _____
 Other hired labor _____
 Payroll-related taxes _____
 Other fringe benefits (Health Ins/Retirement) _____
 Other direct project costs: _____

Total Annual Labor Costs and Other Direct Project Costs \$ _____

Non-Labor Operating Costs:	Monthly	Annual
Outside Services:		
Legal	_____	\$ _____
Accounting	_____	_____
Other: _____	_____	_____
Insurance	_____	_____
Advertising / Promotion	_____	_____
Occupancy Expenses:		
Rent	_____	_____
Utilities (gas / electric)	_____	_____
Phone	_____	_____
Miscellaneous:		
Office supplies/postage	_____	_____
Dues, fees, subscriptions	_____	_____
Travel / entertainment	_____	_____
Other: _____	_____	_____
Interest expense	_____	_____
Principle payments (loan)	_____	_____
Other: _____	_____	_____

Total Annual Non-Labor Costs \$ _____

TOTAL COSTS

\$ _____

3. Determine Hourly Rate

	TOTAL COSTS	\$ _____
divided by	TOTAL BILLABLE HOURS	÷ _____
multiplied by	DESIRED PROFIT	x _1. _____
equals	RATE PER HOUR	= \$ _____

Compare the RATE PER HOUR with the going rate charged by competitors. If too high: 1) lower costs; 2) increase billable hours; or 3) lower desired profit level.

4. Compare Billable Hours Available vs. Hours Realistically Billable

Total Billable Hours (from above): _____ Total Hours you think you can realistically sell: _____

TOTAL COSTS \$ _____ ÷ REALISTIC HOURS _____ = Break-Even Hourly Rate \$ _____

X Desired Profit _1. _____ = REALISTIC HOURLY RATE WITH PROFIT \$ _____

Manufacturing Pricing Worksheet

- | 1. Variable Costs (per unit) | (description) | |
|------------------------------|---------------|----------|
| Raw Materials Inventory Cost | | \$ _____ |
| Production Labor | | _____ |
| Packaging | | _____ |
| Sales Costs | | _____ |
| Other | | _____ |

Total Variable Costs per unit

\$ _____

- ## 2. Competitors' Prices (per unit) for comparison

Competitor A: _____ Price \$ _____
Unique Features and Benefits:

Competitor B: _____ Price \$ _____
Unique Features and Benefits:

Competitor C: _____ Price \$ _____
Unique Features and Benefits:

Proposed Wholesale Price for my product

\$ _____

- | 3. Operating Costs (including Loan Repayment) | Monthly | Annual |
|---|----------|----------|
| Non production wages (employees) | \$ _____ | \$ _____ |
| Owner's salary or draw | _____ | _____ |
| Payroll-related taxes | _____ | _____ |
| Other fringe benefits (Health Ins/Retirement) | _____ | _____ |
| Outside Services: | | |
| Legal | _____ | _____ |
| Accounting | _____ | _____ |
| Other: _____ | _____ | _____ |
| Insurance | _____ | _____ |
| Marketing / Promotion | _____ | _____ |
| Occupancy Expenses: | | |
| Rent | _____ | _____ |
| Utilities (gas / electric) | _____ | _____ |
| Phone | _____ | _____ |
| Miscellaneous: | | |
| Office supplies and postage | _____ | _____ |
| Dues, fees, subscriptions | _____ | _____ |
| Travel and entertainment | _____ | _____ |
| Other: _____ | _____ | _____ |
| Interest expense | _____ | _____ |
| Principle payments (loan) | _____ | _____ |
| Other: _____ | _____ | _____ |

TOTAL OPERATING COSTS

\$ _____

\$ _____

- #### 4. Calculate Break-Even Point

Wholesale Price per unit _____ minus Variable Costs per unit _____ =
Contribution Margin (CM)

Operating Costs _____ divided by CM _____ =
of Units to Break Even \$ to Break-Even

If the Break-Even Point is beyond your capacity to produce or sell, your options include: 1) increase price; 2) decrease variable costs; 3) decrease operating costs.

REMEMBER: Break-even only covers costs! You will have to sell more to make a profit.

5. Does my Proposed Wholesale Price allow for a realistic Retail Price? _____

Why Should You Budget?

- **Helps you understand your business**
- **Translates strategies into action**
- **Enables adaptation to changing conditions**
- **Improves business culture by teaching flexibility and compromise**
- **Fuels creativity and innovation**
- **Provides benchmarks**
- **Uncovers bottlenecks**
- **Coordinates teams and departments**
- **Explains and documents failures, adjustments, and successes**

What Makes a Good Budgeting System?

- ☐ **Employee involvement**
- ☐ **Consistent use**
- ☐ **Documenting your assumptions**
- ☐ **Ease of use**
- ☐ **Integration with your business needs**
- ☐ **Flexibility**

Sales Forecast Example

Henry's Appliance Shop

Months	Jan	Feb	Mar	Total
Product/Service #1				
Units Sold	30	40	50	120
Price per Unit	\$300	\$300	\$300	\$300
Total Sales	\$9,000	\$12,000	\$15,000	\$36,000
Product/Service #2				
Units Sold	70	70	80	220
Price per Unit	\$500	\$500	\$500	\$500
Total Sales	\$35,000	\$35,000	\$40,000	\$110,000
Product/Service #3				
Units Sold	2	2	2	6
Price per Unit	\$3,000	\$3,000	\$3,000	\$3,000
Total Sales	\$6,000	\$6,000	\$6,000	\$18,000
Total-All Product/ Service Sales	\$50,000	\$53,000	\$61,000	\$164,000

Cost of Projected Product Units Sold Budget

Henry's Appliance Shop

Months	Jan	Feb	Mar	Total
Product #1				
Units Sold	30	40	50	120
Cost per Unit	\$45	\$45	\$45	\$45
Total Cost	\$1,350	\$1,800	\$2,250	\$5,400
Product #2				
Units Sold	70	70	80	220
Cost per Unit	\$150	\$150	\$150	\$150
Total Cost	\$10,500	\$10,500	\$12,000	\$33,000
Product #3				
Units Sold	2	2	2	6
Cost per Unit	\$300	\$300	\$300	\$300
Total Cost	\$600	\$600	\$600	\$1,800
All Products Total Cost	\$12,450	\$12,900	\$14,850	\$40,200

Growth (or Start-Up) Expenses

Cash Available Now (A)		Cost
1.	Purchase fixed assets (land, equipment, buildings, vehicles) (See Fixed Assets Worksheets)	
2.	Remodeling costs (buildings, fixtures, signs, paint, cleaning)	
3.	Installation fees (equipment, phones, hookup charges)	
4.	Deposits (utilities, lease, phone, leased equipment)	
5.	Fees, licenses, certifications	
6.	Special one-time legal fees (specifically for growth or start-up)	
7.	Special accounting/other professional fees	
8.	Pre-opening labor expense	
9.	Pre-opening training costs	
10.	Beginning inventory of merchandise or materials	
11.	Supplies (letterhead, forms, price tags)	
12.	Promotion (grand opening, prizes, giveaways)	
13.	Advertising (initial media, direct mail, coupons)	
	Other expenses (one-time, specifically related to growth/start-up)	
14.		
15.		
Total Growth (or Start - Up) Expenses (B)		
Beginning Cash Balance - OR - Additional Cash Required (A - B)		

Financial Worksheets Completed

- ✓ **Salaries/Wages & Benefits
(including payroll taxes)**
- ✓ **Outside Services**
- ✓ **Insurance**
- ✓ **Advertising Budget**
- ✓ **Occupancy Expense**
- ✓ **Miscellaneous Expenses**

- ☐ **Sales Forecast**
- ☐ **Cost of Projected Product
Units Sold**
- ☐ **Fixed Assets**
- ☐ **Growth (or Start-up) Expenses**
- ☐ **Existing Debt**

Performance Report Example

Henry's Appliance Shop

	January Budget	January Actual	Variance Over (Under)
Cost of Goods Sold			
Product/Service #1			
Units Sold	30	42	
Cost per Unit	\$45	\$40	
Total Cost	\$1,350	\$1,680	\$330
Product/Service #2			
Units Sold	70	65	
Cost per Unit	\$150	\$157	
Total Cost	\$10,500	\$10,205	(\$295)
Operating Expenses			
Labor			
Salaries & Wages	\$30,000	\$32,000	\$2,000

Learning Objectives

- Understand the concept of break-even analysis
- Calculate the break-even point in units and dollars
- Explore ways of managing the cash flow cycle
- Understand internal controls for cash management
- Prepare monthly and annual cash flow projections with accompanying notes

Managing Your Money: Developing and Using Cash Flow Projections Session Eight

Date: _____

Due: Section VI.—Part A._____

Worksheets_____

Class Opener

Instructor Topics

1. Break-Even Analysis
2. Managing the Cash Flow Cycle
3. Internal Controls for Cash
4. Preparing Cash Flow Projections



Guest Speaker

Break

- Refreshments
- Networking Activity

Work Hour

Assignment for Session Nine

WORKBOOK	Read and complete the worksheets in Workbook Session 8 .
WRITE	Using the <i>Writing Your Plan</i> page at the end of Workbook Session 8 as your guide, complete Section VI. The Financial Plan—Part B. Cash Flow Projections .
TEXT	Read Financing Your Business (Chapter 39).

Learning Objectives

- Understand the concept of break-even analysis
- Calculate the break-even point in units and dollars
- Explore ways of managing the cash flow cycle
- Understand internal controls for cash management
- Prepare monthly and annual cash flow projections with accompanying notes

Managing Your Money: Developing and Using Cash Flow Projections Session Eight

Date: _____

Due: Section VI.—Part A.Worksheets**Class Opener (10 min.)**

Articles of interest, best / worst news, brain teasers, etc.

Instructor Topics (50 min.)

(20 min.)

1. Break-Even Analysis

- What is Break-Even Analysis?
- Reality Check: Is Your Break-Even Point Realistic?
- Planning for Profit

(10 min.)

2. Managing the Cash Flow Cycle

- Managing Inventory
- Managing Accounts Receivable
- Managing Accounts Payable
- Managing Excess Cash

(10 min.)

3. Internal Controls for Cash

- Authorization
- Reconciling Bank Accounts
- Segregation of Duties and Physical Controls

(10 min.)

4. Preparing Cash Flow Projections**Guest Speaker (30 min.)**

- Banker

Break (30 min.)

- Refreshments
- Networking Activity

Work Hour (60 min.)

- Discussion Group
- Homework Review
- Workbook Preview—Session 8

Assignment for Session Nine**WORKBOOK**Read and complete the worksheets in **Workbook Session 8**.**WRITE**Using the *Writing Your Plan* page at the end of **Workbook Session 8** as your guide, complete **Section VI. The Financial Plan—Part B. Cash Flow Projections**.**TEXT**Read **Financing Your Business** (Chapter 39).

BREAK-EVEN ANALYSIS

Now, it's time to start pulling all of the pieces together, to see if your plan really works. The first step in that process is reviewing all of the worksheets prepared to this point, and doing some analysis to see if your assumptions are realistic.

If you introduced the **break-even point** while using the Pricing Worksheets in Session 7, this will be a continuation of that discussion. If not, have participants look at those worksheets as you go through this session.

What is Break-Even Analysis?

Break-even analysis is a way to identify the minimum level of sales (in units and dollars) that is required to cover all budgeted expenses. In other words, your business's break-even point is the volume of sales at which revenues and expenses are equal. You do not make a profit at the break-even point, but you have generated enough revenue to cover your expenses.

Point out that owner salaries are paid out of profits. Therefore, revenue earned at the break-even point is not enough to cover expenses and pay owner salaries.

Similarly, in a sole proprietorship or partnership, the Salaries/Wages Budget does not include money taken out for the owner or partners. The break-even point is based on budgeted expenses, so it will not represent a level of income that covers owner withdrawals, unless that expense is added into the calculations from the start.

Also, growth (or start-up) expenses are not considered an operating expense, and are therefore not normally included when calculating break-even.

Calculating the break-even point in units and dollars

Have participants turn to the ***Break-Even Analysis Worksheet*** in **WORKBOOK SESSION 8**. Using the ***Sales Projection Worksheet***, and fixed and variable expenses, show how to calculate the break-even point using a simple example. The Pricing Worksheets from **WORKBOOK SESSION 7** also show break-even calculations.

Fixed and variable expenses

Using **OHD 8-1** and **8-2**, review fixed and variable expenses. Discuss costs that are mixed. How important is it to clearly identify fixed and variable costs?

Discuss **contribution margin**. **Ask the question:** *Once break-even is reached (meaning your fixed and variable costs are covered), where does the contribution margin go?* (Answer: To profit.)

The break-even point

Use **OHD 8-3** to illustrate where the break-even point is, and what happens as sales rise over that point. Use **OHD 8-4** to illustrate break-even calculations.

Reality Check: Is Your Break-Even Point Realistic?

Can you sell enough units, or earn enough dollars in service sales, to break even? If the answer is no, you must revise your budgets to identify a more realistic break-even point.

Offer an example where the break-even point would not be realistic (e.g., a Bed and Breakfast where every room would have to be rented 320 days out of the year.)

Ask the question: *How can you make your break-even point more realistic?* Discuss some of the ways to get the break-even point to a more realistic level. Include suggestions on both the revenue and expense side (e.g., raising the price of the rooms at the Bed and Breakfast, or reducing the cleaning expenses by doing some of the work yourself).

Planning for Profit

Use **OHD 8-5** to discuss the idea of planning for profit, and pricing accordingly. Profit planning can be based on specific profit or volume goals, or a combination of both. The key concept here is that **profit must be planned for**. It doesn't just happen! And it is very much dependent on your pricing strategies.



NOTE: Up to this point, we've dealt with pricing in general terms—e.g., how price fits into marketing strategies—instead of developing appropriate prices for specific products. Now that the Expenses Worksheets have been completed, the issue of price based on sales and expenses projections can be discussed. There will be a variety of products and services represented in your class, so be prepared to recommend helpful resources to your participants. They will almost certainly need individualized help with pricing for their specific business type. Remind them to review Chapter 29 *Price*.

Optional In-Class Exercise

Exercise: Make copies of the *Pricing and Break-Even Example Worksheet* at the end of these notes. Allow 10 minutes for participants to work on the worksheet through Question 7 (either individually or in pairs). Go through their answers.

Now, start changing the numbers around to create various what-if scenarios, as shown in Questions 8 through 10. Again, have participants work on each what-if question for a couple of minutes, then discuss the answers. The idea is to let them see how drastically pricing and planning for profit can affect their break-even points.

MANAGING THE CASH FLOW CYCLE

Define **cash flow** (cash flowing into your business from sales, investments, and borrowing; and flowing out of your business for merchandise, operating expenses, equipment, debt, and other business expenses).

Use **OHD 8-6** to illustrate the **cash flow cycle**. Discuss how managing the various components of the cycle can lead to better cash flow, using the notes below on Inventory, Receivables, Payables, and Excess Cash. Remind your students about the importance of **cash flow management**, and the high number of business failures due to poor cash flow management practices.

Managing Inventory

Go over an example of **inventory turnover**, and note that quicker turnover increases the flow of cash into the business. If you have participants whose businesses involve inventory, you may want to spend more time on this topic. Discuss problems they have moving inventory, and what steps they could take to increase inventory turnover.

Putting inventory on sale

Discuss how putting inventory on sale affects the cash flow (positively from the standpoint of potentially getting more cash, but negatively in terms of not getting the anticipated full price). Discuss how the inevitable issue of marking inventory down needs to be built into the sales forecast. Develop a simple scenario to illustrate what happens to the break-even point when a 20% price reduction is offered.

Ratio analysis and benchmarking

Using **OHD 8-7**, go over examples of the **inventory turnover ratio** and **average days in inventory ratio**. Discuss what these ratios tell the business owner. Emphasize that ratios must be compared to something to be meaningful (a benchmark). Meaningful benchmarks include:

- Results in prior years
- Actual results this year
- Budgeted amounts
- Industry averages

Managing Accounts Receivable

Using **OHD 8-8**, go over an example of the receivables turnover ratio. Emphasize how careful management of receivables can increase cash flow into the business.

Exercise: Ask participants what credit terms they intend to offer, or what terms are typically offered in their industry. Do customers generally take advantage of those terms? How do those terms affect cash flow? What will you do if customers abuse the terms? Who will handle collection problems?

Show an example of an Accounts Receivables Subsidiary Ledger and the information it contains. Show the example of an **aging report** on **OHD 8-9**, and explain its use. Discuss answers to the questions on the overhead as a group.

Managing Accounts Payable

Discuss the importance of paying bills on time, the effect of not taking discounts on cash flow, and the effect of paying bills early on cash flow.

Managing Excess Cash

What if you have excess cash? Leaving it in a non-interest bearing checking account is not a productive means of managing cash. Short-term investments that are safe and leave your cash accessible can become an income-producing activity that makes a difference in your cash flow. Have your guest speaker address short-term excess cash management.

INTERNAL CONTROLS FOR CASH (SEE OHD 8-10)

In Session 6, we began the discussion of **internal controls**. Once again, cash management requires strict controls in terms of who is authorized to handle cash, reconcile bank accounts, perform daily cash functions, and physically deposit cash. (Reminder: In this context, the term “cash” refers to currency, checks, and charge card deposits.)

Authorization

Give examples of controls over check signing, and ask participants what control policies are in place in their businesses.

Reconciling Bank Accounts

How many of the businesses represented reconcile their bank statements monthly? Who performs this task? Who reviews it? What are the major problems encountered?

Segregation of Duties

Use **OHD 8-11** to illustrate the different duties that would be handled in a small business with enough employees to have 12 different people handle the cash functions. Then, discuss the practicality of segregating all of these duties in a small business with very few employees, and which of these functions most need to be segregated for optimal cash control and efficient operation.

Physical Controls

Discuss daily deposits and safes as internal controls. **Ask the question:** *What internal controls over cash registers do you or other local businesses use?*

PREPARING CASH FLOW PROJECTIONS

After working on the budgets, and forecasting sales and expenses, you are ready to put the information together in a **Cash Flow Projection**.

The process of preparing a Cash Flow Projection can be a little confusing to the first-timer. For that reason, we suggest that a significant amount of the Work Hour be devoted to showing how numbers are actually posted onto the worksheet. This is a skill best learned by doing, so introduce the worksheet here, and work through the details in the Work Hour.

Monthly Cash Flow Projections

Have participants turn to the **Monthly Cash Flow Projections** section in **WORKBOOK SESSION 8** and read the introductory paragraphs. Then, using the **Cash Flow Projection Worksheet**, go over Steps 2 through 10, explaining where the information will come from (i.e., worksheets prepared to this point) and answering general questions.

Most of the Work Hour will be used to work through a Cash Flow Posting Sample, so that participants understand how and where to post the numbers.



NOTE: Be sure to remind participants that the Beginning Cash Balance in Month 1 comes from Line C of the ***Growth (or Start-Up) Expenses Worksheet*** in **WORKBOOK SESSION 7** (or if that worksheet is not applicable, from the cash balance at the end of the last accounting period).

Discuss why monthly cash flow projections are so important to lenders (ability to service debt), and how they can be used to better manage your business.

Notes to the Cash Flow Projection

The road map for the reader of the Cash Flow Projection is the Notes section. This information is a critical part of the statement, and must accompany it. Stress how important the assumptions are to a lending institution, and that the reason you have been stressing the assumptions on all of the worksheets to this point is because they must provide proper back-up for the information in the cash flow statements.

GUEST SPEAKER



Banker

Prepare some questions that you would like your guest speaker to address, and give them to your guest well in advance of class.

Suggestions:

- What types of business services does your bank offer?
- What should a small business consider when choosing a bank?
- How important are cash flow projections to your bank in approving a business loan?
- What advice can you give small-business owners to help them manage their cash?
- How should small-business owners choose short-term investments?
- What are the three most common mistakes you see when helping small businesses?

WORK HOUR SUGGESTIONS

Sample cash flow problem

First, we'll work through some basic facts, and post the numbers into the ***Monthly Cash Flow Projection Worksheet***. Then, we'll change the assumptions slightly, and show how this affects cash flow. While this example is only for three months, the same principles apply to the 12-month and longer projections.

Distribute the ***Sample Cash Flow Posting Problem–Scenario 1 Fact Sheet***, and a blank ***Cash Flow Projection Worksheet***. (Both can be found at the end of these notes.)

Explain that the handout is actually a set of assumptions used to develop the Cash Flow Projection. The Cash Flow Posting Problem is random data, just to get participants thinking about how to post the numbers to the worksheet.

Have participants complete as much of the worksheets as they can, preferably in small groups. Tell them to use a pencil, as there will be a lot of erasing! When you begin to see frustration setting in, or they've gone as far as they can, walk through each assumption and show how it gets posted to the ***Cash Flow Projection Worksheet***.

There is some flexibility as to where certain items can be posted. Make sure participants understand that the category of expense decisions comes from them, but that consistency is what creates useful reports.

When you are finished as a group, give them the **Sample Cash Flow Posting Problem—Scenario 1 Answer Sheet** and the **Cash Flow Projection Worksheet—1st Run** handout (both found at the end of these notes), so they can see the numbers neatly printed and compare them to their own worksheets.

Next, hand out out the **Sample Cash Flow Posting Problem—Scenario 2 Fact Sheet**. Explain that we are now going to change our original plan through management decisions, which will create a new Projected Cash Flow Statement.

Go through each new fact, and discuss how the change will affect the numbers on the Projected Cash Flow Statement. Then, give them the printed **Cash Flow Projection Worksheet—2nd Run** handout (also found at the end of these notes), so they can see the numbers and compare it to the first scenario.

This exercise accomplishes many things. It shows students how numbers are posted to a worksheet; how management decisions affect the numbers; and how the manager/owner must make decisions about categorizing line-items of expense.



NOTE: Instructors have several options for presenting this material. You could use overheads and post the numbers to the worksheets on the overhead. A transparency of the blank cash flow sheet allows you to use a marker and write in the numbers as you go. It's easy to erase and make changes, which allows students to follow your discussion more easily. Alternatively, you could put the **Cash Flow Projection Worksheet** in an Excel file (or other spreadsheet file) and demonstrate the use of computer spreadsheets along with the process of cash flow projection.

Homework Review—Session 7

Address any difficulties that arose while trying to develop budgets and assumptions. Be prepared for some frustration, as this is one of the more difficult concepts in the business plan.

Workbook Preview—Session 8

Have participants look at Step 12 of the **Monthly Cash Flow Projections** section. Discuss how the Cash Flow Projection will be analyzed. (Encourage use of a computer spreadsheet program. Changes are inevitable, and letting the computer do the math will save lots of time.)

Look at the **Annual Cash Flow Projections—Years Two and Three Worksheet**. Discuss how you suggest completing those worksheets (either using the month by month analysis, or projecting the year total by applying percentage increases). **Remind participants that they must document the assumptions made for Years Two and Three.**

Assignment Review

Review the *Writing Your Plan* page at the end of **WORKBOOK SESSION 8**. Make sure participants understand the **Cash Flow Projection Worksheet** assignment. Decide if you want them to complete the Years Two and Three assignment before reviewing Year One. Have participants look at various *NxLevel® Sample Business Plans* to see the different ways in which they present financial information.

OVERHEADS AND HANDOUTS AVAILABLE FOR SESSION EIGHT

OHD	8-1	Fixed Expenses
OHD	8-2	Variable Expenses
OHD	8-3	The Break-Even Point
OHD	8-4	Break-Even Analysis
OHD	8-5	Pricing and Planning for Profit
OHD	8-6	The Cash Flow Cycle
OHD	8-7	Managing Inventory
OHD	8-8	Managing Accounts Receivable
OHD	8-9	Accounts Receivable Aging Report
OHD	8-10	Internal Controls for Cash
OHD	8-11	Segregation of Duties for Cash

(Also see the **Pricing and Break-Even Example** handout, and the **Sample Cash Flow Posting Problem** handouts at the end of these notes.)

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION EIGHT



- SBA handouts on cash flow management
- Sample cash flow projections
- Brochures from banks about business bank accounts offered
- Articles about cash flow management
- Worksheets and data to be used in the Work Hour
- Sample break-even calculations

You have the option of finding these articles/publications for use in class, or asking students to search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes below.

Supplemental materials used for Session Eight

Notes

Pricing and Break-Even Example

You make canvas tote bags. Your competition sells a similar bag for between \$8.00 and \$11.00. You decide to price your tote bags at \$10.00 each. Let's see how many bags it will take to pay for your fixed and variable expenses, and therefore to break even.

Here's a list of all of your expenses:

Raw material for the tote bags: \$3.00/bag
 Lease per month: \$800.00
 Hourly labor: \$1.00/bag
 Sales commission (10%): \$1.00/bag
 Telephone per month: \$100.00

Insurance per month: \$50.00
 Shipping expense: \$.50/bag
 Bookkeeping per month: \$100.00
 Loan payment per month: \$300.00

Sort these expenses into **variable expenses** and **fixed expenses**:

Variable expenses:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
Total variable (per unit)	\$ _____

Fixed expenses:

_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
_____	\$ _____
Total fixed (per month)	\$ _____

The **Contribution Margin** is the Selling Price per unit minus the Variable Expenses per unit.

1. What is the Selling Price of one tote bag? (+) \$ _____
2. What are the Variable Expenses associated with one bag? (-) \$ _____
3. What is the Contribution Margin per bag? (=) \$ _____

The Contribution Margin is the amount contributed from each unit of sales towards covering fixed expenses and profits.

4. What are your total Fixed Expenses for a month? \$ _____ per month
5. What is your Contribution Margin per bag? \$ _____ per bag
6. How many bags must be sold to pay for your monthly Fixed Expenses? _____ bags
 (Fixed Expenses divided by the Contribution Margin equals
 the number of bags it will take to break even.)

7. Change the selling price per bag to \$13.00. Now what is your break-even number? _____

8. What happens to the break-even number if you decide to lower the price to \$9.00?

9. Suppose you want to make \$900.00 profit per month. How many additional bags must you sell at the \$10.00 selling price to make that profit? _____ At \$13.00? _____ At \$9.00? _____

Sample Cash Flow Posting Problem—Scenario 1 Fact Sheet

Cash Flow

Line #

_____ The business is a corporation. There is \$5,000 cash in the corporate checking account.

_____ Equipment will be purchased in Month 2 for \$5,000.

_____ A new sign is being made that costs \$1,500. It will be paid for in equal installments in Months 2 and 3.

_____ Stationery and business cards have been ordered, at a cost of \$200. They will be delivered in Month 1, but will not be paid for until Month 2.

_____ Sales anticipated are: \$1,000 in Month 1; \$2,000 in Month 2; \$3,000 in Month 3. Terms are 50% down in cash, and 50% due in 30 days.

_____ Merchandise in the amount of \$3,000 will be purchased in Month 1. Terms have been negotiated as follow: 1/3 due in Month 1, 1/3 due in Month 2, and 1/3 due in Month 3. Another \$3,000 of merchandise will be purchased in Month 3, with the same terms.

_____ Salaries are \$1,000 per month for the President and \$500 per month for a helper. (Use 20% estimated benefits and payroll taxes for calculating convenience.)

_____ \$250 per month will be spent on advertising.

_____ Additional office supplies will be needed in Month 2, at a cost of \$250.

_____ Rent is \$500 per month, with the first and last months due in Month 1 as a deposit.

_____ An accountant will do the books for \$150 per month.

_____ There will be 3 phones. Hook-up fees in Month 1 are \$150. The anticipated monthly charge is \$75.

_____ Gas and lights in this building should run an average of \$100 per month (\$200 in winter months, \$50 in summer months).

_____ Insurance is \$2000 per year, billed quarterly.

NOTE: Cost of merchandise is doubled to get the sales price. **Question:** Do you need that information to complete this worksheet?

Using the information above, post as many items to the **Cash Flow Projection Worksheet** as you can. Indicate the number of the cash flow line to which you posted the item on the line in front of each item.

Last, calculate the adjusted net cash balance for the Quarter.

Cash Flow Projection Worksheet (Blank)

	1 Jan	2 Feb	3 Mar	Quarter Subtotal	4 Apr	Comments
1. (A) Beginning Cash Balance						
Cash Receipts						
2. Cash Sales						
3. Collections from Receivables						
4. Loan or Other Injection						
(B) Total Cash Receipts						
Cash Disbursements						
5. Purchases (Merchandise)						
6. Gross Wages						
7. Payroll Exp. (Taxes, etc.)						
8. Outside Services (Accounting)						
9. Supplies (Office and Operation)						
10. Repairs and Maintenance						
11. Advertising						
12. Car, Delivery, Travel (mileage)						
13. Occupancy Expenses						
a. Rent						
b. Telephone						
c. Utilities						
14. Insurance						
15. Miscellaneous						
16. Purchase of Fixed Assets						
(C) Total Cash Disbursements						
Net Cash Flow (B-C)						
Adjustments to Net Cash Flow						
17. (+) New Debt						
18. (+) New Owner Investment						
19. (+ or-) Other:						
(D) Adjusted Net Cash Flow						
Ending Cash Balance (A+D)						

Sample Cash Flow Posting Problem—Scenario 1 Answer Sheet

Cash Flow

Line

- 1 There is \$5,000 cash in the corporate checking account.
- 16 Equipment will be purchased in Month 2 for \$5,000.
- 16 A new sign is being made that costs \$1,500. It will be paid for in equal installments in Months 2 and 3.
- 9 Stationery and business cards have been ordered in the amount of \$200. They will be delivered in Month 1, but will not be paid for until Month 2.
- 2 & 3 Sales anticipated are: \$1,000 in Month 1; \$2,000 in Month 2; \$3,000 in Month 3. Terms are 50% down in cash, and 50% due in 30 days.
- 5 Merchandise in the amount of \$3,000 will be purchased in Month 1. Terms have been negotiated for 1/3 due in Month 1, 1/3 due in Month 2, 1/3 due in Month 3. Another \$3,000 of merchandise will be purchased in Month 3 with the same terms.
- 6 & 7 Salaries are \$1,000 per month for the President and \$500/month for a helper. (Use 20% estimated benefits and payroll taxes for calculating convenience.)
- 11 \$250 per month will be spent on advertising.
- 9 Additional office supplies will be needed in Month 2, for a total of \$250.
- 13a Rent is \$500 per month, with the first and last months due in Month 1 as a deposit.
- 8 An accountant will do the books for \$150 per month.
- 13b There will be 3 phones. Hook-up fees in Month 1 are \$150. Anticipated charge will be \$75 per month.
- 13c Gas and lights in this building should run an average of \$100/month (\$200 in winter months, \$50 in summer months).
- 14 Insurance is \$2,000 per year, billed quarterly.

NOTE: Cost of merchandise is doubled to get the sales price. **Question:** Do you need that information to complete this worksheet?

Answer: Not yet. But you will need it for the Income Statement.

Cash Flow Projection Worksheet—1st Run

	1 Jan	2 Feb	3 Mar	Quarter Subtotal	4 Apr	Comments
1. (A) Beginning Cash Balance	5,000	375	(8,300)	5,000	(11,375)	
Cash Receipts						
2. Cash Sales	500	1,000	1,500	3,000		
3. Collections from Receivables	0	500	1,000	1,500	1,500	
4. Loan or Other Injection	0	0	0	0		
(B) Total Cash Receipts	500	1,500	2,500	4,500		
Cash Disbursements						
5. Purchases (Merchandise)	1,000	1,000	2,000	4,000	1,000	This account has multiple postings
6. Gross Wages	1,500	1,500	1,500	4,500		
7. Payroll Exp. (Taxes, etc.)	300	300	300	900		
8. Outside Services (Accounting)	150	150	150	450		
9. Supplies (Office and Operation)	0	450	0	450		This account has multiple postings
10. Repairs and Maintenance	0	0	0	0		
11. Advertising	250	250	250	750		
12. Car, Delivery, Travel (mileage)	0	0	0	0		
13. Occupancy Expenses						
a. Rent	1,000	500	500	2,000		
b. Telephone	225	75	75	375		
c. Utilities	200	200	50	450		This account could vary depending on geographic location
14. Insurance	500	0	0	500	500	
15. Miscellaneous	0	0	0	0		
16. Purchase of Fixed Assets	0	5,750	750	6,500		
(C) Total Cash Disbursements	5,125	10,175	5,575	20,875		
Net Cash Flow (B-C)	(4,625)	(8,675)	(3,075)	(16,375)		
Adjustments to Net Cash Flow						
17. (+) New Debt						
18. (+) New Owner Investment						
19. (+ or -) Other:						
(D) Adjusted Net Cash Flow	(4,625)	(8,675)	(3,075)	(16,375)		
Ending Cash Balance (A+D)	375	(8,300)	(11,375)	(11,375)		

Sample Cash Flow Posting Problem—Scenario 2 Fact Sheet

Cash Flow

Line

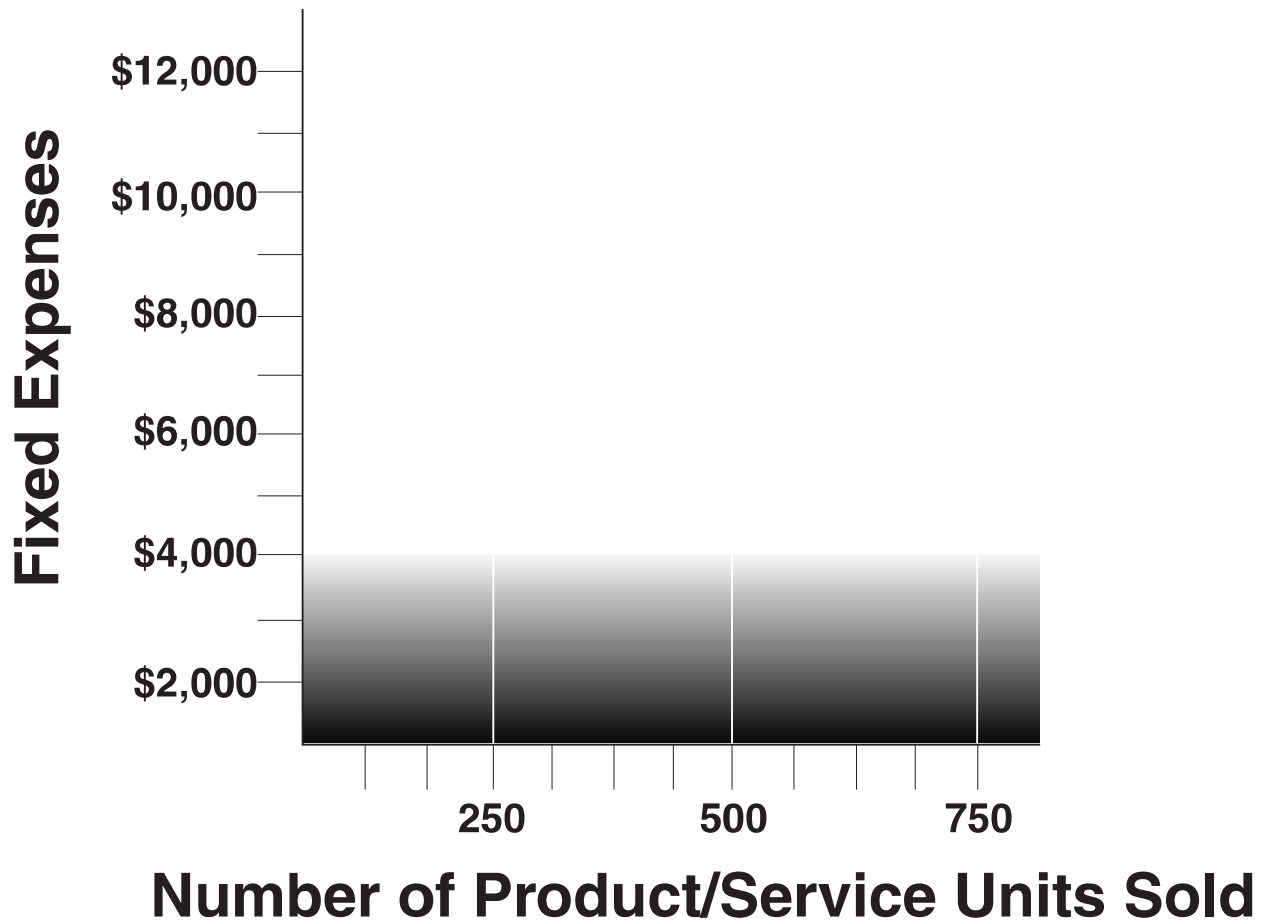
- 1 The business is a corporation. There is \$5,000 cash in the corporate checking account.
- 16 Equipment will be purchased in Month 2 for \$5,000.
—**Change to 120 days, no interest.**
- 16 A new sign is being made that costs \$1,500. It will be paid for in equal installments in Months 2 and 3.
- 9 Stationery and business cards have been ordered in the amount of \$200. They will be delivered in Month 1, but will not be paid for until Month 2.
- 2 & 3 Sales anticipated are: \$1,000 in Month 1; \$2,000 in Month 2; \$3,000 in Month 3. Terms are 50% down in cash, and 50% due in 30 days.
—**No charge sales. Use MC and VISA.**
- 5 Merchandise in the amount of \$3,000 will be purchased in Month 1. Terms have been negotiated for 1/3 due in Month 1, 1/3 due in Month 2, 1/3 due in Month 3. Another \$3,000 of merchandise will be purchased in Month 3 with the same terms.
- 6 & 7 Salaries are \$1000 per month for the President and \$500 per month for a helper. (Use 20% estimated benefits and payroll taxes for calculating convenience.)
—**Reduce boss to \$750. (Note that payroll taxes change.)**
- 11 \$250 per month will be spent on advertising.
- 9 Additional office supplies will be needed in Month 2, for a total of \$250.
- 13a Rent is \$500 per month, with the first and last months due in Month 1 as a deposit.
—**Negotiate deposit.**
- 8 An accountant will do the books for \$150 per month.
- 13b There will be 3 phones. Hook-up fees in Month 1 are \$150. Anticipated phone charge will be \$75 per month.
- 13c Gas and lights in this building should run an average of \$100/month (\$200 in winter months, \$50 in summer months).
—**Negotiate budget billing.**
- 14 Insurance is \$2000 per year, billed quarterly.

Post the adjustments above to the **Cash Flow Projection Worksheet**, and see how Net Cash Flow is affected by the changes.

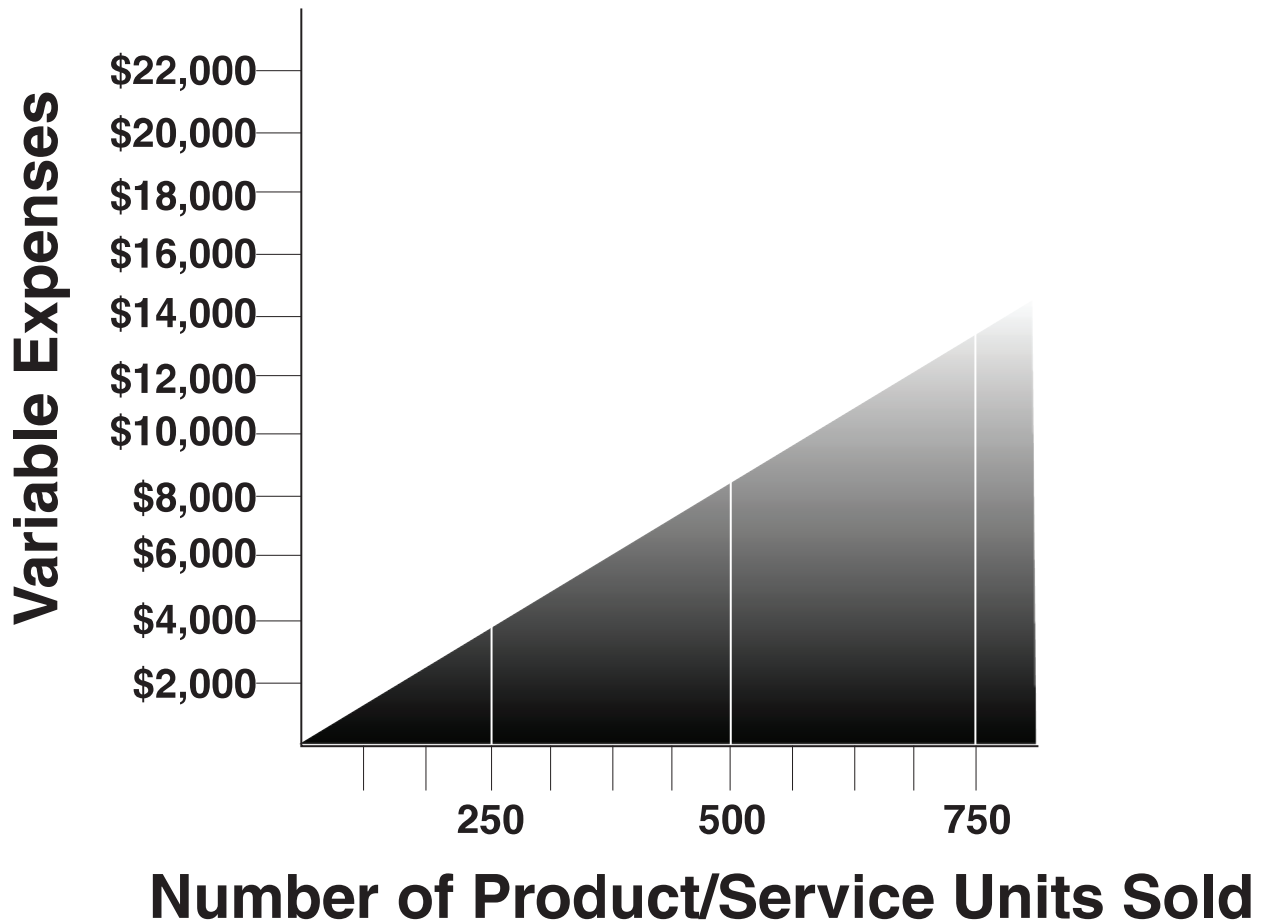
Cash Flow Projection Worksheet—2nd Run

	1 Jan	2 Feb	3 Mar	Quarter Subtotal	4 Apr	Comments
1. (A) Beginning Cash Balance	5,000	1,745	(1,090)	5,000	(3,505)	
Cash Receipts						
2. Cash Sales	1,000	2,000	3,000	6,000		Required MC and VISA (see bank fee in Misc. of 3%)
3. Collections from Receivables	0	0	0	0		Changed as a result of #2
4. Loan or Other Injection	0	0	0	0		
(B) Total Cash Receipts	1,000	2,000	3,000	6,000		
Cash Disbursements						
5. Purchases (Merchandise)	1,000	1,000	2,000	4,000	1,000	This account has multiple postings
6. Gross Wages	1,250	1,250	1,250	3,750		Boss earns \$750, helper \$500
7. Payroll Exp. (Taxes, etc.)	250	250	250	750		Changed as a result of #6
8. Outside Services (Accounting)	150	150	150	450		
9. Supplies (Office and Operation)	0	450	0	450		This account has multiple postings
10. Repairs and Maintenance	0	0	0	0		
11. Advertising	250	250	250	750		
12. Car, Delivery, Travel (mileage)	0	0	0	0		
13. Occupancy Expenses						
a. Rent	500	500	500	1,500		Negotiate deposit
b. Telephone	225	75	75	375		
c. Utilities	100	100	100	300		Negotiate budget billing
14. Insurance	500	0	0	500	500	
15. Miscellaneous-Bank Fee 3%	30	60	90	180		3% from using MC/VISA
16. Purchase of Fixed Assets	0	750	750	1,500		Equipment purchase terms negotiated to 120 days, no interest
(C) Total Cash Disbursements	4,255	4,835	5,415	14,505		
Net Cash Flow (B-C)	(3,255)	(2,835)	(2,415)	(8,505)		
Adjustments to Net Cash Flow						
17. (+) New Debt						
18. (+) New Owner Investment						
19. (+ or -) Other:						
(D) Adjusted Net Cash Flow	(3,255)	(2,835)	(2,415)	(8,505)		
Ending Cash Balance (A+D)	1745	(1,090)	(3,505)	(3,505)		

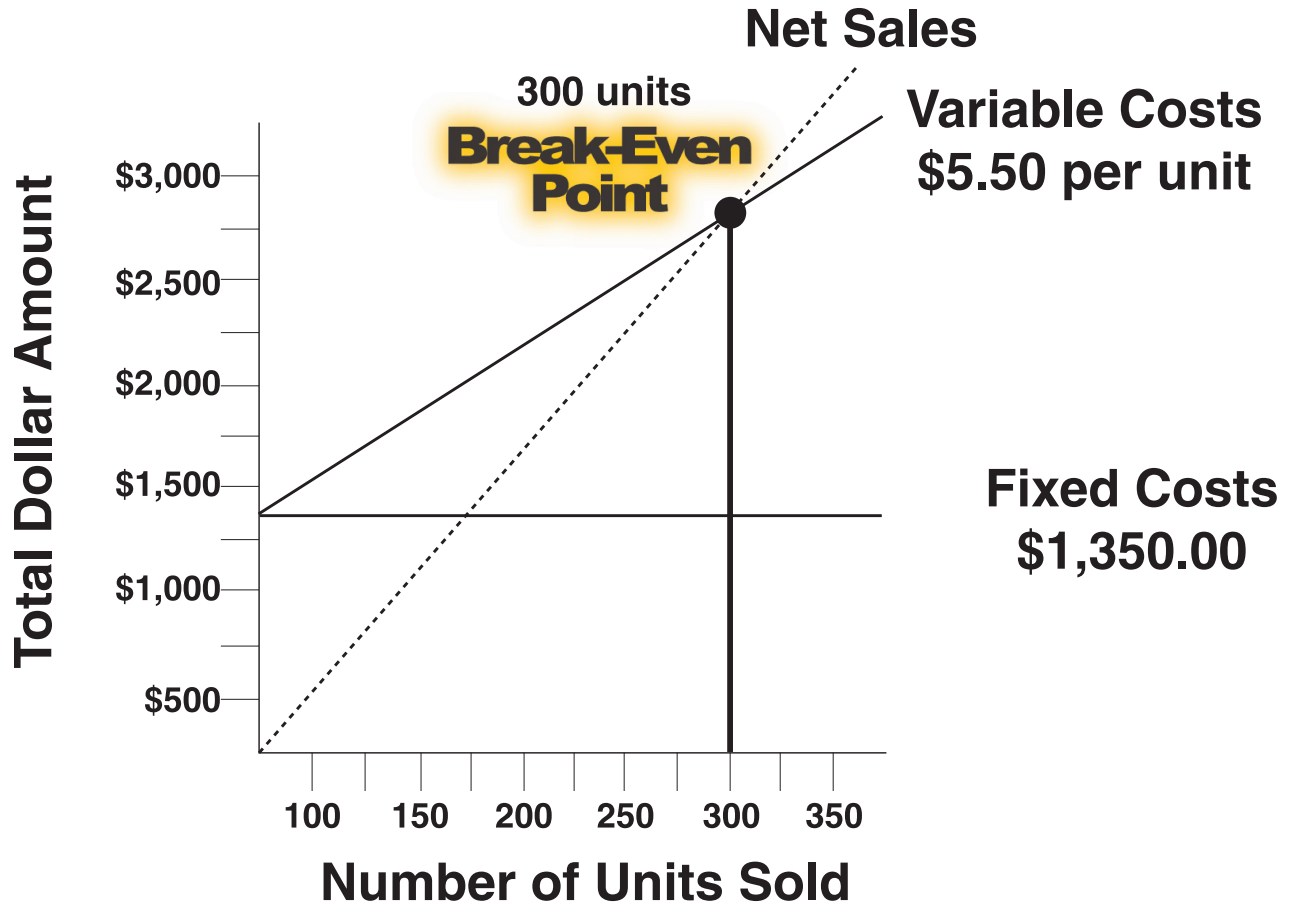
Fixed Expenses



Variable Expenses



The Break-Even Point



Break-Even Analysis

How many units do you need to sell before you start making a profit?

$$\text{Break-Even Units Volume} = \frac{\text{Fixed Costs}}{\text{Price} - \text{Variable Costs}}$$

Example:

Selling Price is \$10.00 per unit

Variable costs are \$5.50 per unit

Contribution margin is \$4.50 per unit

Fixed costs are \$1,350.00 per month

$$\text{Break-Even Point in Units} = \frac{\$1,350.00}{\$4.50} = 300 \text{ units per month}$$

When you sell unit #301, you will start making a profit *for that month*.

(Break-Even in Dollars of Sales =
300 units x \$10 = \$3,000)

Pricing and Planning for Profit

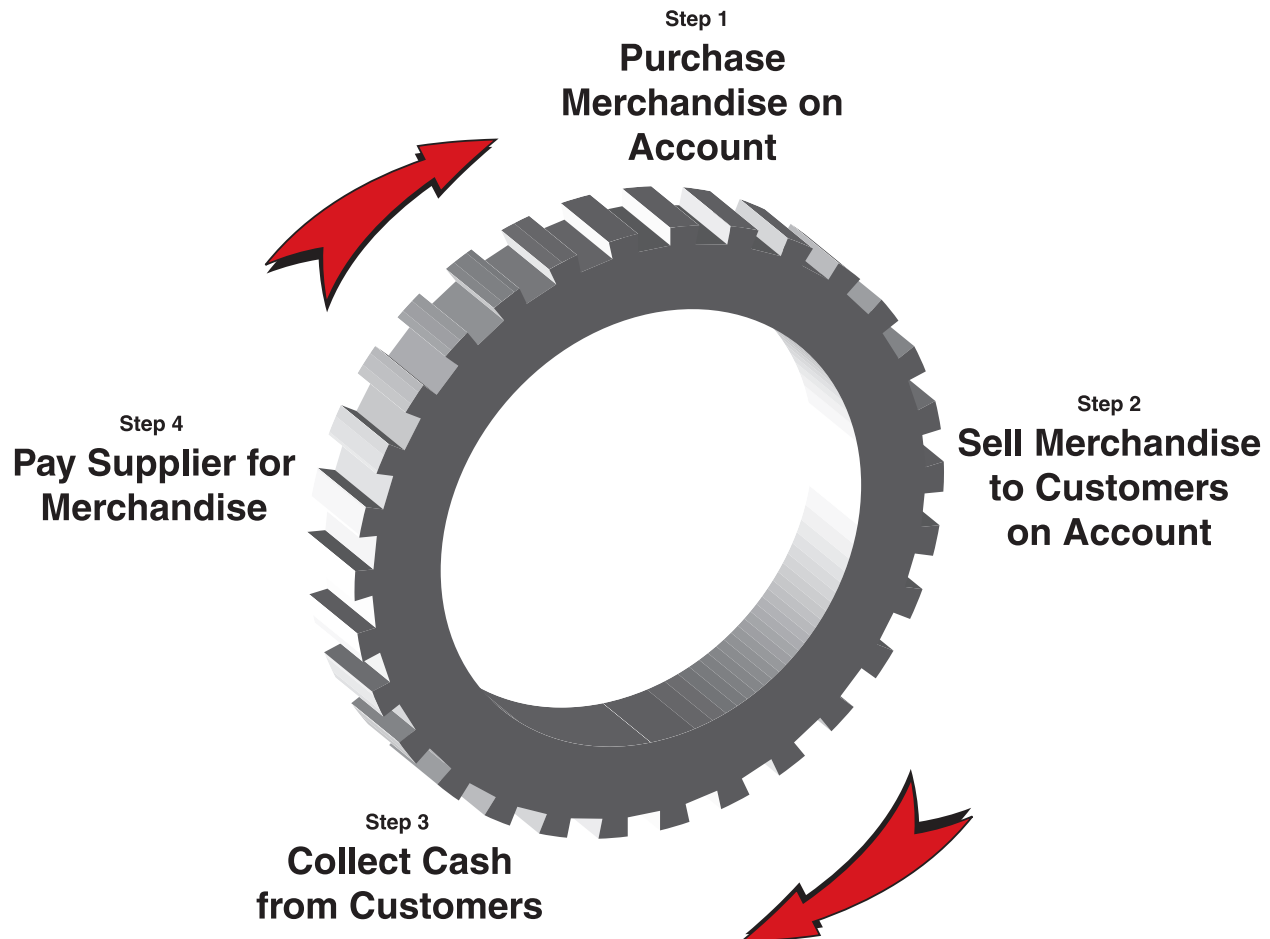
- ◆ Can you sell 300 units per month at the \$10.00 per unit price?
- ◆ If it takes 300 units per month to break even, how many more can you sell to make a profit?
- ◆ How much profit do you *want* to make?

Example: You want to make \$900 per month profit. How many more units per month do you have to sell?

1. It took 300 units to break even
2. \$4.50 per unit after the first 300 will contribute to profit
3. $\$900 \div \$4.50 = 200$ units more to make \$900 per month profit

- ◆ Can you sell 500 units per month?

The Cash Flow Cycle



Managing Inventory

**Inventory Turnover =
Cost of Goods Sold ÷ Average
Inventory**

Example:

Cost of Goods Sold ÷ Average Inventory

\$390,000 ÷ \$30,000 = 13

Inventory turns 13 times per year

**Average Days in Inventory =
365 days ÷ Inventory Turnover**

Example:

365 days ÷ 13 = 28

*On average, goods remain in inventory
28 days*

Managing Accounts Receivable

$$\text{Receivables Turnover} = \text{Net Credit Sales} \div \text{Average A/R}$$

Example:

$$\text{Net Credit Sales} \div \text{Average A/R}$$

$$\$715,000 \div \$65,000 = 11$$

Receivables turn 11 times per year

$$\text{Average Collection Period} = 365 \text{ days} \div \text{Receivables Turnover}$$

Example:

$$365 \text{ days} \div 11 = 33$$

On average, it takes 33 days to collect receivables

Accounts Receivable Aging Report

Bullfrog, Inc.
October Accounts Receivable Aging Report

Age of Account	Account Name	Amount	Totals
0 - 30 Days	Barnaby	\$ 200.00	
	Johnson	\$ 150.00	
	Total 0 - 30 Days		\$ 350.00
30 - 60 Days	Hamilton's B & B	\$ 1,250.00	
	Connor	\$ 100.00	
	Kline	\$ 200.00	
	Jones	\$ 450.00	
	Total 30 - 60 Days		\$ 2,000.00
60 - 90 Days	Jones	\$ 350.00	
	Total 60 - 90 Days		\$ 350.00
Over 90 Days	Jones	\$ 300.00	
	Total Over 90 Days		\$ 300.00
	TOTAL RECEIVABLES		\$ 3,000.00

- ◆ How do you speed up collections?
- ◆ What would you do with the *Over 90 days* category?
- ◆ How does your collection policy affect your Cash Flow Projection?

Internal Controls for Cash

- ◆ **Authorization**
- ◆ **Receiving Bank
Account Statements**
- ◆ **Reconciling Bank
Accounts**
- ◆ **Segregation of Duties**
- ◆ **Physical Controls**
- ◆ **Controls for Cash
Registers**

Segregation of Duties for Cash

Segregation of Duties for Cash Sales

- ◆ Handles central cash register Person 1
- ◆ Closes register at end of the day and reconciles cash in the drawer to total sales Person 2
- ◆ Prepares deposit slip Person 1
- ◆ Makes deposit daily and compare deposit slip to cash report prepared by Person 2 Person 3

Segregation of Duties for Checks Received in the Mail

- ◆ Opens mail and makes a list of checks received Person 4
- ◆ Prepares deposit slip Person 5
- ◆ Updates A/R records Person 6
- ◆ Compares the info from persons 4, 5, and 6 Person 7

Segregation of Duties for Cash Disbursements

- ◆ Prepares checks Person 8
- ◆ Signs checks, reviews supporting documents Person 9
- ◆ Mails checks Person 9 or 10

Segregation of Duties for Bank Reconciliation

- ◆ Prepares bank reconciliation Person 11
- ◆ Reviews bank reconciliation Person 12

Learning Objectives

- Prepare the Monthly Projected Income Statement and understand how it differs from the Cash Flow Projection
- Develop a Projected Balance Sheet and compare it with the Beginning Balance Sheet
- Become familiar with the Statement of Owner's Equity and Annual Statement of Cash Flows
- Gain an understanding of managerial uses of financial statements

Managing Your Money: Understanding and Using Financial Statements Session Nine

Date: _____

Due: Section VI.—Part B.

Cash Flow Projections

Class Opener

Instructor Topics (50 min.)

1. The Income Statement
2. The Balance Sheet
3. Statement of Owner's Equity
4. Annual Statement of Cash Flows
5. Summary of Financial Statements



Guest Speaker

Break

- Refreshments
- Networking Activity

Work Hour

Assignment for Session Ten

WORKBOOK

Read and complete worksheets in **Workbook Session 9**.

WRITE

Using the *Writing Your Plan* page at the end of **Workbook Session 9** as your guide, complete **Section VI. The Financial Plan—Part C. Financial Statements**.

TEXT

Read **Money Sources** (Chapter 40).

Learning Objectives

- Prepare the Monthly Projected Income Statement and understand how it differs from the Cash Flow Projection
- Develop a Projected Balance Sheet and compare it with the Beginning Balance Sheet
- Become familiar with the Statement of Owner's Equity and Annual Statement of Cash Flows
- Gain an understanding of managerial uses of financial statements

Managing Your Money: Understanding and Using Financial Statements

Session Nine

Date: _____

Due: Section VI.—Part B.

Cash Flow Projections

Class Opener (10 min.)

Articles of interest, best / worst news, brain teasers, etc.

Instructor Topics (50 min.)

- | | |
|-----------|------------------------------------|
| (15 min.) | 1. The Income Statement |
| (15 min.) | 2. The Balance Sheet |
| (5 min.) | 3. Statement of Owner's Equity |
| (5 min.) | 4. Annual Statement of Cash Flows |
| (10 min.) | 5. Summary of Financial Statements |

**Guest Speaker (30 min.)**

- Certified public accountant (CPA)

Break (30 min.)

- Refreshments
- Networking Activity

Work Hour (60 min.)

- Discussion Group
- Homework Review
- Workbook Preview—Session 9

Assignment for Session Ten**WORKBOOK**

Read and complete worksheets in **Workbook Session 9**.

WRITE

Using the *Writing Your Plan* page at the end of **Workbook Session 9** as your guide, complete **Section VI. The Financial Plan—Part C. Financial Statements**.

TEXT

Read **Money Sources** (Chapter 40).

THE INCOME STATEMENT

We started the discussion of financial statements by asking the question, “Who uses financial information?” So far, we’ve been focusing on internal, managerial uses. Now, we’ll look at communicating financial information to others, through the use of standardized financial statements.

Review the general financial statement topics from Session 6:

- Financial statements as a means of standardized communication
- Accrual vs. cash method
- Limitations of financial statements
- Historical cost principle

The **Income Statement** summarizes income-producing business activities over a specific period of time, and shows the resulting net income or net loss. The information is historical, and also shows income taxes payable related to the net income.

The Projected Monthly Income Statement

From the managerial perspective, this statement is designed to show you the result of your projected income-producing activities, based on your budgets and assumptions. You will be preparing a Projected Monthly Income Statement in **WORKBOOK SESSION 9**, which we’ll look at during the Work Hour.

The formula: ***Revenue - Expenses = Net income.***

What do the numbers mean?

Revenues and expenses are cash flows that result in **assets** and **liabilities**. The Balance Sheet shows assets and liabilities, while the Income Statement shows revenues and expenses. Point out that the Income Statement is really a historical record of the business over a given period of time.

Use **OHD/Handout 9-1** to discuss a sample Income Statement. Use the circled numbers on the overhead to discuss the elements of the Income Statement.

The difference between the Income Statement and Cash Flow Projections

Continue to use **OHD/Handout 9-1** to explain the difference between the numbers here and the numbers on the Cash Flow Projection.

Use the following points to guide your discussion:

- **Sales.** Discuss cash vs. accrual basis, and the difference between this statement and the Cash Flow Projection.
- **Cost of Projected Product Units Sold.** In a historical statement, the Cost of Goods Sold represents Beginning Inventory + Purchases - Ending Inventory. In our projected statement, this will be called Cost of Projected Product Units Sold, and will be projected from anticipated sales volume. (Remind service businesses that this is a product entry only.)
- **Gross Profit.** Is this really profit? Is this money available to pay for operating expenses? Is this cash?
- **Operating Expenses.** Are these cash expenses? Or are they accrued expenses? This continues your discussion of the difference between this statement and Cash Flow Projections.
- **Depreciation Expense.** Explain non-cash items as another difference between the Cash Flow Projection and Income Statement. Here, depreciation is visible.
- **Net Income.** Is this cash on hand?

Using Income Statement Information

Review your discussion from Session 6 regarding tools for analyzing financial information, including ratio analysis and benchmarks.

Vertical and horizontal analysis

Use **OHD/Handout 9-2** to illustrate **vertical analysis**. For the income statement, discuss how tracking COGS, Gross Profit, Operating Expenses, and Net Income as a percentage of Net Sales helps the owner monitor profitability.

Ask the question: *If your COGS percentage rises significantly, what does this signal, and what managerial steps would you take?* For the Balance Sheet, discuss tracking Net Equity trends.

Use **OHD 9-3** to illustrate **horizontal analysis**. Discuss the value of horizontal analysis without the use of additional tools. **Example:** Sales are increasing from a horizontal analysis perspective, but without vertical analysis you don't know how much costs are increasing relative to sales increases.

Operating ratios

Use **OHD 9-4** to illustrate three common operating ratios used in analyzing potential profitability, all of which are taken from the Income Statement information. Discuss how lenders use these ratios.

The Income Statement and income taxes

From a managerial accounting standpoint, this discussion can be an extremely important one, but could also go on for the entire session! Decide how much time you want to devote to the topic, and how much detailed information you want to present.

At a minimum, distinguish the Income Statement from the other statements as the one by which the business is taxed. Consider discussing the impact of cash vs. accrual on the taxable income amount. Point out how crucial timing is to the amount of net income in the accounting period for which the Income Statement is prepared.

Effective managing in this area starts with the filing and bookkeeping functions discussed in Session 6, which give you the necessary information for decisions about timing issues related to the income and expenses for the period.

Profitability ratios

Use **OHD 9-5** to discuss ratios that relate earnings to resources available in the business. Again, discuss how lenders and investors view these ratios.

THE BALANCE SHEET

Once the Projected Income Statement is prepared, you can return to the Business Balance Sheet started in Session 6. The Projected Balance Sheet now reflects your business's financial condition at the end of the projected first year. Thus, you will be able to see how your decisions affect business assets and liabilities, and your equity. Remind students that the Balance Sheet is a snapshot of the business on a given day.

The formula: ***Liabilities + Owner's equity = Assets.***

Consider reviewing the Asset Pie overhead from Session 6 (**OHD 6-4**).

During the Work Hour, you will have participants look at the Projected Balance Sheet and see how the liquidity ratios (**OHD 6-5**) will be affected as a result of the first projected year. You might want to preview that discussion here.

Ask the question: *What will lenders be looking for in your Projected Balance Sheet?*

STATEMENT OF OWNER'S EQUITY

Explain that this statement is the bridge between the Income Statement and the Balance Sheet. It details the change in ownership as a result of income-producing activities of the business.

Discuss: *Does a positive equity balance mean that the business has cash to pay the owners?*

Use **OHD/Handout 9-6** to illustrate the difference in the format of this statement based on the legal structure of the business.

ANNUAL PROJECTED CASH FLOW STATEMENT

While most small businesses leave this statement to an accountant, it's a fairly easy one for the entrepreneur to understand.

Use **OHD/Handout 9-7** to illustrate what this statement looks like. Use the circled numbers to show that it details cash flowing into and out of the business.

The summary shows the net increase or decrease in cash for the year, the beginning cash balance, and the resulting ending cash balance. This statement simply summarizes (for the accounting period) where cash came from, where it went, and how it affected the prior cash balance.

Note that **this does not reflect the accrual method of accounting**, since it is dealing with cash. Also, explain how the statement ties into the Balance Sheet cash amount.

Business owners are often frustrated because their financial statements show a large net income, and yet the business has cash flow problems. Use a sample Statement of Cash Flows to discuss how cash is spent to build inventory, decrease debts, buy new assets, etc.

SUMMARY OF FINANCIAL STATEMENTS

The projected data compiled by creating financial statements shows you the financial effects of decisions relating to the growth, expansion, or start-up of your business.

Although these projections aren't—and can't be—100% accurate, they will help you decide whether your idea has financial merit, and identify adjustments you'll need to make in order to ensure you get where you want to go.

GUEST SPEAKER



Certified public accountant (CPA)

Prepare some questions that you would like your guest speaker to address, and give them to your guest well in advance of class.

Suggestions:

- What information on the financial statements do business owners have the most trouble understanding, and how do you explain those things to them?
- What financial ratios do you emphasize when reviewing financial statements?
- What are the most common misconceptions business owners have about their financial statements?
- What suggestions can you make about the form and content of financial statements that will make them more useful to lenders and investors?
- Discuss the importance of cash flow projections.



NOTE: The Guest Speaker for Session 6 should have addressed the services that accounting firms offer. This session's speaker does not need to cover that topic.

WORK HOUR SUGGESTIONS

We recommend that this Work Hour be used to begin the worksheets for this session. Preparing the Projected Monthly Income Statement can be confusing, so start there. This would be a good session to ask the guest speaker to stay, if possible, and help participants with the numbers on a one-on-one basis.

Look at the ***Projected Balance Sheet Worksheet*** (Session 6), and explain the difference between the starting balance sheet and the one they will be preparing now. Again, point out that they will be analyzing the effects of their decisions by calculating the new liquidity ratios.

Exercise: Consider using the **Sample Cash Flow Posting Problem** from Session 8 to show how those numbers move into the Income Statement and Balance Sheet. Discuss what additional information you would have to add to the sample problem if you wanted to complete the Income Statement and Balance Sheet (e.g., knowledge of non-cash items, determination of inventory balances, etc).

Homework Review

This is a point at which participants tend to get bogged down. Be sure to check individual progress! Decide whether an extra work session is needed to complete cash flows, or if this is an appropriate time for a week off (or a special topic extra session) to allow participants to complete their financial information.

Workbook Preview—Session 9

You will be working with **WORKBOOK SESSION 9** throughout this class. Point out that the *Writing Your Plan* page requires the preparation of the remaining financial statements. Have participants look at the presentation of financial information in several *NxLevel® Sample Business Plans*.

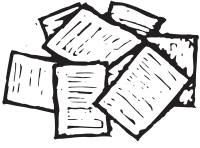
Assignment Review

There is only one chapter assigned for reading, so encourage participants to work hard on their financial worksheets.

OVERHEADS AND HANDOUTS AVAILABLE FOR SESSION NINE

OHD/Handout	9-1	Sample Income Statement
OHD/Handout	9-2	Vertical Analysis
OHD	9-3	Horizontal Analysis
OHD	9-4	Operating Ratios
OHD	9-5	Profitability Ratios
OHD/Handout	9-6	Statement of Owner's Equity
OHD/Handout	9-7	Annual Statement of Cash Flows

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION NINE



- Sample financial statements
- Introductory and sample pages from *Annual Statement Studies* by Robert Morris Associates and *Key Business Ratios* by Dun & Bradstreet
- Articles about using financial statements
- *NxLevel® Sample Business Plans* (financial sections particularly)
- Sanitized financial worksheets of a business that failed (for analysis purposes)

You have the option of finding these articles/publications for use in class, or asking students to search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes below.

Supplemental materials used for Session Nine

Notes

Sample Income Statement

Your Business
Income Statement
For the Year Ended December 31, 2009

Sales			\$450,000 ❶
Less: Cost of goods sold			<u>(200,000) ❷</u>
Gross Profit			\$250,000 ❸
Less: Operating Expenses	❹		
Wages expense		\$80,000	
Payroll tax expense		20,000	
Insurance expense		5,000	
Rent expense		24,000	
Advertising expense		3,000	
Utilities expense		1,400	
Depreciation expense		<u>1,300 ❺</u>	<u>134,700</u>
Net Operating Profit or Loss			\$115,300
Other gains and losses:			
Interest revenue			700
Interest expense			<u>(1,200)</u>
Net Income Before Taxes			\$114,800
Less: Income Taxes			<u>30,000 ❻</u>
Net Income			\$84,800 ❼

Vertical Analysis

Your Business Income Statement For the Year 2010

Net Sales	\$250,000	100%
Cost of Goods Sold	(130,000)	52%
Gross Profit	\$120,000	48%
Operating Expenses	(100,000)	40%
Net Income	<u>\$ 20,000</u>	8%

Your Business Balance Sheet As of December 31, 2010

ASSETS

Current Assets	\$100,000	25%
Property, Plant & Equip.	260,000	65%
Intangible Assets	40,000	10%
Total Assets	<u>\$400,000</u>	100%

LIABILITIES

Current Liabilities	\$ 80,000	20%
Long-term Liabilities	180,000	45%
Total Liabilities	<u>\$260,000</u>	65%

OWNER'S EQUITY	<u>\$140,000</u>	35%
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TOTAL LIABILITIES & EQUITY	<u><u>\$400,000</u></u>	100%
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Horizontal Analysis

Sales

2007 \$120,000 100%	2008 \$126,000 105%	2009 \$180,000 150%	2010 \$186,000 155%
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Operating Ratios

Ratios that reflect activities crucial to making a profit

Gross Profit Percentage

- **Gross Profit ÷ Net Sales**

Inventory Turnover

- **Cost of Goods Sold ÷ Average Inventory**

Receivables Turnover

- **Net Credit Sales ÷ Average Net Receivables**

Profitability Ratios

Ratios that compare earnings to the resources available in the business.

**Think of these ratios as answering the question:
“How well did I do, given what I had to
work with?”**

Return on Sales

- **Net Income ÷ Net Sales**

Return on Assets

- **Net Income ÷ Total Assets**

Earnings Per Share

- **Net Income ÷ Average # of
Common Shares Outstanding**

Statement of Owner's Equity

**The Sole Proprietorship
Statement of Owner's Equity
For the Year Ended December 31, 2010**

Beginning Owner's Equity	\$70,000
New Investment Buyer	10,000
Net Income	84,800
Withdrawals	(40,000)
Ending Owner's Equity	<u>\$124,800</u>

**The Company, Inc.
Statement of Retained Earnings
For the Year Ended December 31, 2010**

Beginning Retained Earnings	\$200,000
New Income	84,800
Less: Dividends	(160,000)
Ending Retained Earnings	<u>\$124,800</u>

Annual Statement of Cash Flows

Your Business Statement of Cash Flows As of December 31, 2010

Cash Flows from Operations **1**

Net Income	\$ 90,000
Depreciation Expense	50,000
Increase in A/R	(80,000)
Increase in Inventory	(40,000)
Decrease in A/P	<u>(10,000)</u>
Cash Provided by Operations	\$ 10,000

Cash Flows from Investing Activities **2**

Purchase of New Equipment	\$(55,000)
Sale of Old Equipment	<u>40,000</u>
Cash Used for Investing Activities	\$(15,000)

Cash Flows from Financing Activities **3**

Proceeds from New Borrowings	\$135,000
Principal Payments on Borrowings	(85,000)
Payment of Dividends	<u>(30,000)</u>
Cash Provided by Financing Activities	\$(20,000)

Net Increase in Cash	\$ 15,000 4
Cash Balance 12/31/98	<u>20,000</u>
Cash Balance 12/31/99	<u>\$ 35,000</u>

Learning Objectives

- An understanding of the difference between debt and equity financing
- Knowledge of alternative sources of financing
- Understand the components of a complete financing proposal
- Explore ways to work with bankers
- Communicate financial needs to lenders and investors

Financing Your Business: Sources of Money Session Ten

Date: _____

Due: Section VI.—Part C.

Financial Statements

Class Opener

Instructor Topics

1. Choosing the Right Financing
2. Debt Financing
3. Equity Financing
4. Other Financing Sources
5. Keys for Obtaining Financing



Guest Speaker

Break

- Refreshments
- Networking Activity

Work Hour

Assignment for Session Eleven

WORKBOOK

Read and complete the worksheets in **Workbook Session 10**.

WRITE

Using the *Writing Your Plan* page at the end of **Workbook Session 10**, write **Section I. Executive Summary**, and complete **Section VI.—Part D. Additional Financial Information**.

TEXT

Review **Green Business Opportunities** (Chapter 10); **Business and Environmental Ethics** (Chapter 16); and **Managing Green** (Chapter 24).

Learning Objectives

- An understanding of the difference between debt and equity financing
- Knowledge of alternative sources of financing
- Understand the components of a complete financing proposal
- Explore ways to work with bankers
- Communicate financial needs to lenders and investors

Financing Your Business: Sources of Money Session Ten

Date: _____

Due: Section VI.—Part C.

Financial Statements

Class Opener (10 min.)

Articles of interest, best news / worst news, brain teasers, etc.

Instructor Topics (50 min.)

(10 min.) **1. Choosing the Right Financing**

(10 min.) **2 Debt Financing**

- Financial Institutions
- Leasing
- SBA and Other Programs

(10 min.) **3. Equity Financing**

- Venture Capital, Private Investors, and Private Exchanges
- IPOs and ESOPs

(10 min.) **4. Other Financing Sources**

- Peer-to-Peer Lending
- Self-Financing and Bootstrapping

(10 min.) **5. Keys for Obtaining Financing**



Guest Speaker (30 min.)

- SBA representative or lender using SBA packaging

Break (30 min.)

- Refreshments
- Networking Activity

Work Hour (60 min.)

- Discussion Group
- Homework Review
- Workbook Preview—Workbook Session 10

Assignment for Session Eleven

WORKBOOK Read and complete the worksheets in **Workbook Session 10.**

WRITE Using the *Writing Your Plan* page at the end of **Workbook Session 10**, write **Section I. Executive Summary**, and complete **Section VI.—Part D. Additional Financial Information.**

TEXT Review **Green Business Opportunities** (Chapter 10); **Business and Environmental Ethics** (Chapter 16); and **Managing Green** (Chapter 24).

CHOOSING THE RIGHT FINANCING

Use **OHD 10-1** to guide your discussion of the various uses for financing.

Small-business owners often do not adequately identify and justify their financing needs. They simply ask for a loan, without realizing that the type of loan should always relate to its intended purpose.

Use **OHD 10-2** to emphasize the need to distinguish working capital requirements from real estate or equipment acquisitions.

Obtain printed materials about loan types from a local bank and hand out for discussion.



NOTE: You could use part of the Work Hour to have participants reevaluate their anticipated Fixed Assets purchases. The reason for reevaluating that segment is to clarify your loan needs, since Fixed Assets purchases may make up a significant portion of the total money required.

Debt vs. Equity Financing

Define debt and equity financing:

- **Debt financing** is any type of loan where you borrow money and pay it back with interest.
- **Equity financing** means that you give up part of your business ownership in exchange for money.

Use **OHD 10-3** to discuss the advantages and disadvantages of debt and equity financing.

Equity financing—there are basically two options:

- **Self-funding.** Advantages include maintaining ownership and control, avoiding the mental stress of owing money, etc. Disadvantages include smaller financing amounts (usually), and having one's personal money tied up in the business.
- **Attracting investors.** Advantages include more total resources available, the new experience/expertise investors might bring to the table, etc. Disadvantages include loss of control—particularly if investors are involved in the management of the business—and the potential for squeezing out the original owner if majority control can be purchased.

Debt financing:

- **Advantages:** Generally quicker; may be less costly in the long run than selling ownership; you retain control.
- **Disadvantages:** Debt is paid with after-tax dollars; start-ups may have difficulty finding traditional loans; rules and guidelines of lender may interfere with personal business ideas for growth and expansion.

Business owners often choose debt financing, either because they don't wish to relinquish ownership, or because they need the funds immediately and won't take the time required to look for equity financing. However, most businesses are funded by a combination of debt and equity. We'll examine this further when we talk about other financing sources.

Why is it important to understand the difference between debt and equity? Because bankers look at your ability to repay based on your cash flow and how much debt your business can service.

In particular, they look at your **debt to equity ratio**, which measures how much debt your business has, relative to the amount of equity. Low debt and high equity is the safest position. Equal amounts of debt and equity are generally manageable. Large amounts of debt compared to a small amount of equity is risky. The market crash towards the end of 2008 demonstrates the problems inherent with too much leverage.

This may be a good time to go back to the discussion of the Balance Sheet, which can be used to illustrate the debt vs. equity issue.

DEBT FINANCING

Financial Institutions

Discuss the various types of financial institutions.

Traditional banks

- Different banks serve different markets. Look for a commercial lending division.
- Generally, you should try to work with a local bank first.
- Businesses with no track record may find it difficult to get a bank loan unless it's **SBA guaranteed**, and/or co-signers or additional guarantors are secured.
- Banks are heavily regulated, and may have strict requirements relating to risk, reporting requirements, interest rates, and so on.

Credit unions

- Nonprofit, cooperative, tax-exempt.
- Required by law to limit membership to specific groups (e.g., labor unions, churches).
- Offer lower interest rates and smaller loans than conventional banks.
- If you're eligible, may be a good source of loans for vehicles, fixtures, or real estate.
- Tend to favor loans that will aid in community development and growth.

Consumer finance companies

- Make small personal loans (a few thousand dollars) to people who would have difficulty obtaining credit elsewhere.
- Charge higher interest to offset risk.
- Hidden fees, taxes, insurance payments, and early repayment penalties can add to the cost of the loan.

Commercial finance companies

- Similar to consumer finance companies, but specialize in business loans.
- Be prepared to pay a high interest rate, offer lots of collateral, and face substantial penalties for early repayment.
- Read the fine print carefully! Hidden costs can be very expensive.

Community Development Loan Funds (CDLFs)

- Promote business growth and economic independence in disadvantaged communities.
- Organizations that offer these loans are called Community Development Financial Institutions (CDFIs).
- Range from small, local nonprofits to large banks with millions of dollars in assets.

The Cs of Credit

Use **OHD 10-4** to discuss **The Cs of Credit**.

- **Credit and financial history.** The financial history presented in your financing proposal should include your personal credit history, as well as a summary of your business's financial performance to date. Your business's financial history should include clear financial data tables and text. Include sales, cash flow, profits, and key financial ratios.
- **Character.** The soundness of a small-business loan is often as dependent on the trustworthiness of the owner as on the track record of the business. Your reputation in your area is important, so you should provide excellent local business references. (Ask permission first!)
- **Capacity** refers to the ability of the business to repay debt with cash generated from operations. It also refers to secondary sources of repayment if the business does not generate enough funds. Discuss what secondary sources of funds participants might have.
- **Collateral.** Discuss the types of collateral that are important to the bank. Most loans are secured with real estate or paper assets (i.e., stocks and bonds), but in some cases, it may be possible to use expected assets as collateral.
- **Conditions.** How will economic trends affect your business? What steps have you taken to reduce risk, seize opportunities, and overcome looming obstacles? How are similar businesses faring? How much competition do you have?
- **Capital.** Are you committed to your business? The banker is watching your debt to equity ratio. How will you or your business provide the equity portion of the project you are seeking to finance?

Ask the questions: *Which of the Cs do you think is the most important? Which do you think the lender would feel is the most important?*

Leasing

Ask the question: *How is leasing debt financing?*

Use **OHD 10-5** to discuss the advantages and disadvantages of leasing. Discuss how leasing (rather than purchasing) equipment can reduce costs.

Discuss lease/purchase options. Explain how the timing of lease/purchase arrangements can affect cash flow.

Example: A small construction company needed a \$50,000 backhoe. The owner found a lease/purchase offer from a local dealership. It was a 12-month lease with no interest, which then flipped into a loan. The owner timed the job so that the money coming in from the job was available to pay for the backhoe during the last three months of the lease, without having it become a loan. The result was lower lease payments during the first nine months of start-up, and use of the backhoe with no interest payments.

SBA Management Aid 2.104, *Should You Lease or Buy Equipment?* makes a good handout and can be the basis for this discussion.

SBA Programs

(You may wish to leave this topic for your guest speaker.)

Usually, the SBA guarantees up to 90 percent of loans made by a commercial lender. There is very little direct SBA lending. Be sure to get updated information on SBA loan programs and terms, as these programs change frequently.

If your guest speaker is not familiar with the SBA programs, the SBA publishes several brochures to explain their programs. These also make good handouts. You should cover the current status of: LowDoc, 7(a) Loan Guaranty, MicroLoans, and 504 Loans. Remind participants to check the SBA Website for additional information.

Other Federal and State Government Loan Programs

Check with local agencies for information about programs available in your area, including Community Development Block Grants; Rural, Economic & Community Development; loans for green improvements and pollution control; and micro-lending.

EQUITY FINANCING

Venture Capital

Consider the needs of your participants, and the local availability of venture capital, when determining how much time to spend on this topic. Stress that most venture capitalists are looking for businesses that have the capacity to produce hundreds of millions of dollars in revenue per year, and go public. They want ownership and (often) management roles in the company, and the ability to exit within 3 to 6 years.

Try to find local examples of businesses financed with venture capital, and discuss the process they went through. You could also see if your area has an SBIC (Small Business Investment Company), which is a venture capital program sponsored by the federal government. (Check with your local SBA.)

Private Investors

Every area has some local entrepreneurs who have been very successful. These “angels” are a good source of both debt and equity capital for local small businesses. Your attorney, accountant, or banker may be able to put you in touch with such individuals. Alternatively, check out the Keiretsu Forum (www.keiretsuforum.com).

Private Exchanges

In recent years, the struggling economy made venture capital harder to come by. **Private exchanges** popped up as one solution to this problem. They allow stakeholders to exchange shares in start-ups for hard cash. The object is to create a market for exchange in start-ups, as an avenue for raising additional capital. For more details, visit SharesPost.com or SecondMarket.com.

IPOs (Initial Public Offerings) and ESOPs (Employee Stock Ownership Plans)

It can be hard to discuss these options without getting buried in complex legal issues. The goal should just be familiarity with terms, and the levels of required financing at which these options become viable. Strongly stress the importance of working with an attorney and accountant when moving into this arena.

- **ESOPs.** These plans allows employees to purchase ownership interests in the company. One advantage is that you are selling ownership of your business to parties who already work for the company and may have more interest in its success.
- **IPOs.** The term **initial public offering** refers to the first time a corporation offers its shares of stock for sale on a publicly traded stock exchange. Again, this is not a likely option for most small businesses, and it is a heavily regulated process. Emphasize the need to get help from an accountant and a securities attorney.

OTHER FINANCING SOURCES

Exercise: Have participants brainstorm other sources of funding for their businesses. Ask what they think the advantages and disadvantages are of each. Then, use **OHD 10-6** to discuss other sources in more depth.

Peer-To-Peer Lending

Peer-to-peer lending connects borrowers and lenders directly. Such loans may be secured or unsecured, and usually involve Web-based social networking.

There are three basic models for peer-to-peer lending:

- In the **marketplace** model, sites like Prosper.com connect lenders with borrowers through an auction-like process. The lender who offers the best loan terms wins the business of the borrower.
- In the **crowd financing** model, a small amount of money is gathered from many individual contributors to fund a specified project. The funding may be treated as a loan, or it may be something more akin to a donation or sponsorship. [Kickstarter](http://Kickstarter.com) (www.kickstarter.com) is a good example of a crowd financing site.
- In the **community lending** model, a community or group pools its money and loans it to one of its members. The theory is that the preexisting relationship encourages fiscal responsibility and full repayment.

Self-Financing and Bootstrapping

Again, emphasize that potential investors and bankers place great importance on the financial commitment made by business owners. They are much more likely to fund a business in which the owner has a substantial financial interest. Also, bankers may be more responsive when business owners can demonstrate that they've utilized some creative self-financing resources.

Lenders require that a certain percentage of the total funds needed come from the owner, particularly for start-up, proprietorship or emerging businesses. Remind participants that bankers are not risk-takers. They want to see the owner's commitment in terms of dedication and dollars.

Suppliers

Have participants brainstorm ways to use their suppliers as a financing source (discounts for quantity, extended terms, consignment, guaranteed sale, etc.).

This source of financing is often available to established small businesses but overlooked. Start-up businesses will have more difficulty, because they do not yet have a credit history or a relationship with their suppliers. Discuss the importance of building this relationship. Ask existing businesses if they use their suppliers as a funding source.

Customers

Discuss how customer deposits can provide temporary funds for a business. Use an example where a customer deposit is appropriate, and plugs the gap between the time the sale is made and the time the product or service is delivered.

Factoring

Factoring firms buy your Accounts Receivable at a discount, and take over the collection process. This provides you with the money sooner, and transfers the credit and collection duties to a third party.

Be aware of the fee charged for the service, and the recourse arrangement (A/R reverts to you if uncollectible after a certain time, generally not longer than 120 days). Check to see if any of your local banks offer factoring services, and other local or regional options. If any of the existing businesses in class are using a factor, discuss why.

Grants

Find out what local resources have information about assistance grants for things like attending trade shows, technical assistance, environmental improvements, renewable energy, and so forth.

Credit cards

Funding a business with a credit card is usually a bad idea. However, prudent use of credit cards is sometimes acceptable, as long as strict control is exercised.

Example: A start-up plumbing company needed an extra set of tools for a second truck. The trucks were already paid for and owned by the proprietor. While establishing their line of credit with the bank, the owner decided to charge the tools on the credit card for 30 days, thereby allowing the second plumber to get out on scheduled jobs immediately. Then he set up the line of credit at the bank, and paid off the credit card without interest.

Ask the questions: *Have any of you existing business owners ever used credit cards as a source of funding? What were the results?*

Discuss any other sources of financing that were of particular interest, or about which there were questions.

KEYS FOR OBTAINING FINANCING

Small-business owners often make the mistake of seeking financing before they have a complete, written business plan. This is a bad idea! Emphasize that the NxLevel Business Plan is a solid basis for a good financing proposal.

When approaching a lender, the **Executive Summary** of your plan should outline the purpose of the loan; the amount and proposed terms; and the collateral offered. This helps to establish rapport with the lender, by offering a concise picture of your business intentions and financial needs. The presentation of the plan, and your ability to discuss the details, will continue this process.

In addition to the business plan, lenders will generally ask for:

- Three years of personal tax returns
- Three years of business tax returns
- Appraisals on all properties (business and personal)
- Personal Financial Statements for all owners

Also, lenders will generally run a complete credit check on all owners. Providing documentation relating to the financial history of all owners will prevent surprises.

Working with Your Banker

One of the biggest mistakes small-business owners make is to think only of immediate financing needs, instead of trying to work with their banker on a continuous basis. Building rapport is essential, and keeping the banker informed of good and bad news is essential to that process.

Use **OHD 10-7** to discuss tips for building a successful banking relationship, and solicit additional tips from the group. Major points should include:

- Don't just walk in. Make an appointment!
- Be businesslike and professional. Remember: Everything you say and do reflects on you and your business.
- Be prepared. Practice what you want to discuss, and how you intend to approach the discussion. Presentations should be short, to the point, and well thought out.
- Be positive and friendly, never argumentative.
- Be honest. Trust is the most important basis for a long-term relationship.

Last, discuss the pitfalls of 1) asking for more money than is needed; or 2) using unrealistic or false assumptions in preparing Cash Flow Projections.

**SBA representative or lender using SBA packaging**

Prepare some questions that you would like your guest speaker to address, and give them to your guest well in advance of class.

Suggestions:

- Explain the relationship between the lender and the SBA. Does the SBA lend money directly?
- What tips can you give for obtaining an SBA loan?
- What percentage of applications for SBA loans are successfully financed?
- What do lenders and the SBA look for in a loan application?
- What SBA loans are best for green businesses, export/import, etc.?
- Are other government loan programs available for growing or start-up businesses?

WORK HOUR SUGGESTIONS

Discussion Group

(**Option:** Review the *Fixed Assets Worksheet*. Discuss the effect on the Cash Flow Projections—and therefore on financing needs—of purchasing fixed assets, as opposed to leasing. Have participants review their fixed asset needs again.)

Break into groups of 3 to 5. Discuss how many different money sources they anticipate needing or using within the next year. (Remind them to include non-traditional sources like discounts, deposits, etc.)

Pick one of the businesses in the group that will need the most money sources, and have them prioritize the sources that should be utilized first, and the timeline for use. Choose a spokesperson to report back on this prioritization process.

Homework Review

Answer questions about the Financial Plan section.

Workbook Preview—Session 10

Review the *Writing Your Plan* page for **WORKBOOK SESSION 10**. Participants will be summarizing their financial needs.

Discuss the **Executive Summary** and its importance. Participants will have a chance to write a rough draft of this document, have the instructor review it during Session 11, and then write it again if necessary.

Have participants look at several Executive Summary sections in the *NxLevel® Sample Business Plans*.

Assignment Review

The reading assignment is fairly short, and focuses on reviewing chapters that were assigned in earlier sessions. Emphasize working on the **Executive Summary**.

OVERHEADS AND HANDOUTS AVAILABLE FOR SESSION TEN

OHD	10-1	Why Do You Need Financing?
OHD	10-2	Fitting the Loan to the Need
OHD	10-3	Debt or Equity Financing Considerations
OHD	10-4	The Cs of Credit
OHD	10-5	Leasing vs. Purchasing
OHD	10-6	Other Sources of Financing
OHD	10-7	Tips for Working with Your Banker

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION TEN



- Articles on entrepreneurs who have used multiple financing sources
- Articles on microlending, crowd financing, and forms of lending based on social networking media or community groups
- Handout from the SBA on successful loan packaging presentations
- Information from the SBA on the LowDoc, 504, and 7A loan programs
- The SBA publication *Should You Lease or Buy Equipment?*
- Sample loan application forms
- Local or state information on loans, grants, and other incentives for green business, pollution control, energy-saving technology, and so forth

You have the option of finding these articles/publications for use in class, or suggesting that students can search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes on the following page.

Supplemental materials used for Session Ten

Notes

Why Do You Need Financing?

- **Research and development**
- **Growth or start-up expenses**
- **Purchase a business**
- **Seasonal working capital**
- **Permanent working capital**
- **Equipment acquisition**
- **Real estate acquisition**
- **Other:** _____

Fitting the Loan to the Need

Short-term Debt

Used to meet short-term needs, such as seasonal inventory or short-term liquidity problems. Repayment: One year.

Intermediate Debt

Used for permanent working capital equipment acquisition. Repayment: Three to seven years.

Long-term Debt

**Used for real-estate purchases or the initial purchase of a business.
Repayment: Seven years or more.**

Debt or Equity Financing Considerations

- ❖ **Change in ownership**
- ❖ **Obligation to repay**
- ❖ **Tax considerations**
- ❖ **Capital structure**
- ❖ **Time required**
- ❖ **Cost of obtaining the funds**
- ❖ **Personal factors/preferences**
- ❖ **Lender and investor reactions**

The Cs of Credit

- ◆ **Credit History**
- ◆ **Character**
- ◆ **Capacity**
- ◆ **Collateral**
- ◆ **Conditions**
- ◆ **Capital**

Leasing vs. Purchasing

Advantages

- **Usually no down payment**
- **Often over a longer time period than a loan**
- **Protects against equipment obsolescence**
- **May allow “off balance sheet” financing**
- **Increases possible sources of financing**

Disadvantages

- **May cost more if tax advantages lost**
- **May not own asset at end of the lease**
- **Is still a long-term legal obligation**
- **Terms and conditions may limit flexibility of use**

Other Sources of Financing

- **Self**
- **Friends and family**
- **Peer to peer / crowd financing**
- **Suppliers**
- **Customer deposits**
- **Credit cards**
- **Insurance companies**
- **Factoring companies**
- **Loan guarantor**
- **Loan brokers**
- **Franchising**
- **Grants**
- **Other:**

Tips for Working with Your Banker

- ☐ **Deal with a local bank when possible**
- ☐ **Make an appointment**
- ☐ **Select a banker you trust**
- ☐ **Select a banker familiar with your type of business**
- ☐ **Dress appropriately**
- ☐ **Ask for advice**
- ☐ **Develop a long-term relationship**
- ☐ **Know your needs**
- ☐ **Present a complete proposal**
- ☐ **Explain uses and benefits of the loan**
- ☐ **Be flexible**
- ☐ **Be patient**
- ☐ **Tell the truth**
- ☐ **Recommend your banker to others**

Learning Objectives

- Develop an understanding of green opportunities
- Explore the benefits and feasibility of going green
- Gain knowledge of green branding and marketing techniques
- Explore green management options
- Assess the competitive landscape for green business

Green Business Opportunities: Environmental Solutions Session Eleven

Date: _____

Due: Section I. and _____

Section VI.—Part D. _____

Class Opener

Instructor Topics

1. Green Business Opportunities
2. The Green Marketplace
3. Green Branding and Marketing
4. Managing Green



Guest Speaker

Break

- Refreshments
- Networking Break

Work Hour

Assignment for Session Twelve

WORKBOOK

Read and complete the worksheets in **Workbook Session 11**.

WRITE

Using the *Writing Your Plan* sections found in **Workbook Session 11** as your guide, complete the **Cover Page, Table of Contents, Section I. Executive Summary, and Appendix**.

TEXT

Read **Part X: Dealmaking** (Chapters 41 and 42), **Part XI: Managing Growth** (Chapters 43 through 47), and **Part XII: Conclusion** (Chapter 48).

Learning Objectives

- Develop an understanding of green opportunities
- Explore the benefits and feasibility of going green
- Gain knowledge of green branding and marketing techniques
- Explore green management options
- Assess the competitive landscape for green business

Green Business Opportunities: Environmental Solutions Session Eleven

Date: _____

Due: Section I. and _____

Section VI.—Part D. _____

Class Opener (10 min.)

Articles of interest, best / worst news, brain teasers, etc.

Instructor Topics (50 min.)

(15 min.)

1. Green Business Opportunities

- What is a Green Business?
- Philosophy of Green Business
- Will It Last?
- Green Business Practices
- Green Business Ideas

(10 min.)

2. The Green Marketplace

(10 min.)

3. Green Branding and Marketing

- Communicating Green Benefits
- Pricing and Placement

(15 min.)

4. Managing Green

- Pollution Prevention and Product Redesign
- Is It Feasible?
- Getting Help

**Guest Speaker (30 min.)**

- Successful green entrepreneur or green business consultant

Break (30 min.)

- Refreshments
- Networking Break

Work Hour (60 min.)

- Homework Review
- Workbook Preview—Session 11

Assignment for Session Twelve**WORKBOOK**

Read and complete the worksheets in **Workbook Session 11**.

WRITE

Using the *Writing Your Plan* sections found in **Workbook Session 11** as your guide, complete the **Cover Page**, **Table of Contents**, **Section I. Executive Summary**, and **Appendix**.

TEXT

Read **Part X: Dealmaking** (Chapters 41 and 42), **Part XI: Managing Growth** (Chapters 43 through 47), and **Part XII: Conclusion** (Chapter 48).

GREEN BUSINESS OPPORTUNITIES

Entrepreneurs pursue green policies for different reasons. Use **OHD 11-1** to go over some of the most common reasons.

Depending on the reasons you would give for going green, you will probably have different attitudes to green business opportunities. If your focus is ecological, using 100% renewable energy to run your business might be a priority. But if your goal is to start saving right away on your monthly energy bill, you probably won't have the time, capital, or inclination to pursue this goal. Instead, you'd choose simpler goals, like installing energy management software, or weatherproofing your building.

Are your students interested in green business? If not, remind them that their competitors may be *very* interested. If they don't want to start or run a green business, they can view this session as a lesson on the tactics that their competitors will be increasingly likely to use against them in years to come.

Either way, they need to think seriously about these issues before completing their business plans, which is why this session was designed.

What is a Green Business?

Ask the question: *How would you define "green" business? What's the difference between a green business and a regular business?*

Definitions may vary greatly. Explain that from the NxLevel® standpoint, a green business is a business that has the following four goals:

- Improving efficiency
- Reducing waste
- Being a good citizen and neighbor
- Meeting consumer needs and desire for green products

Note that all of these goals can improve the bottom line. **Examples:** Efficiency reduces energy costs; reducing hazardous waste lowers regulatory costs; and being a good neighbor builds your brand and earns consumer goodwill.



NOTE: Practical issues like these are what this session is all about, and participants should understand this from the outset. It's not about debating climate change, or dissecting political personalities, or pitting liberalism against conservatism. Any attempt to start such debates should be politely but firmly discouraged, with a reminder that these issues are well beyond the scope of the class.

Whether participants hope to save the world or simply to beat the competition is up to them. The bottom line here is financial. The goal is not go broke trying to get your business completely off the grid, or to save money by dumping your old chemicals in the creek, but to arrive at **feasible and profitable** environmental policies. That means accurately assessing costs, considering consumer needs, paying close attention to seemingly minor details, and giving up wishful thinking.

Remember: To be feasible, a goal must be:

- **Appropriate** for you, your employees, and your customers
- **Affordable**, in terms of your available capital and/or investment from cash flow
- **Attainable**, given your resources and the expertise of your personnel

Defining our terms

The terms “green” and “sustainable” are often used interchangeably, but there are important differences between the two.

Green is a catch-all term for businesses that attempt to address or prevent environmental problems, either by reducing or eliminating pollutants and waste. If that sounds vague, it is! There is no accepted standard for what constitutes a “green business.”

Because this term is vague, people have sought more specific ways to describe “greenness.”

- **Light greens** are concerned about the environment, and willing to make certain lifestyle choices to protect it, but it’s not their primary motivation.
- **Bright greens** are committed to the health of the environment, and their buying decisions consistently reflect this commitment. They tend to be optimistic about the effect of their personal decisions, and to believe that we can improve our standard of living and enjoy some measure of economic growth, while reducing or reversing our environmental impact.

Many businesses have taken steps to reduce waste or avoid using specific chemicals. This doesn’t make them green, though, any more than not smoking cigarettes makes a person healthy. Like being healthy, being green requires you to look at the big picture, and pursue a broad range of interrelated, beneficial actions.

By contrast, bright green businesses try to operate in ways that solve, rather than cause, both environmental and social problems.

Sustainable refers to businesses that seek to meet present needs without reducing the ability of future generations to meet their own needs. As such, it’s tied to the notion of **intergenerational equity**, which states that we must preserve natural resources for the generations that will come after us. Much like business succession and estate planning, its basic emotional appeal is that we want to preserve or improve the value of our assets for our children. Therefore, it counsels sustainable use and management of resources, much as an accountant might counsel careful investment planning.

Example: Consider a business that builds housing developments using eco-friendly materials and energy from renewable sources. Most people would consider this to be a green business. But from a sustainability standpoint, larger questions arise. Housing developments consume land, water, and other resources, and they also affect ecosystems. They also produce waste. A truly sustainable builder would take these issues into account when planning and siting projects.

Businesses that claim to be sustainable are usually held to a much higher standard than green businesses, so it’s best not to use the term unless you can back up your claims.

Clean technology (or **cleantech**) is pretty much what it sounds like. Its goal is to create cleaner, safer, more efficient products and processes—based on an understanding of biology and other life sciences—in order to reduce or reverse human impacts on the environment. Familiar examples include solar, wind, and tidal power, as well as alternative fuels and biodegradable packaging.

Socially responsible business is another vague term. Usually, such businesses are committed to the environmental policies listed above, but they also attempt to give back to the local, national, or global community through volunteering, investment, donations and sponsorships, education, humanitarian projects, and so forth. They also tend to be committed to high levels of transparency, and may issue public reports that detail almost every aspect of their business.

The important thing to consider is where you, your product, and your customers fit on this spectrum. Having done so, you can come up with a business plan that fits all three.

Philosophy of Green Business

As we discussed in Chapter 16 *Business and Environmental Ethics*, there are several basic philosophical concepts behind green business. Understanding them will help participants to understand the logic behind seemingly unrelated green practices.

Conservation ethics and intergenerational equity

There are two main currents in environmental ethics:

- **Deep ecology** argues that the environment and the creatures that live in it have an intrinsic value, simply by virtue of the fact that they exist.
- **Conservation ethics** argues that the environment must be protected because it's necessary to ensure human welfare, now and in the future. Therefore, it counsels sustainable use and management of resources for the benefit of future generations. This is known as **intergenerational equity**.

Ecosystem services

A common approach to conservation ethics is the valuation of **ecosystem services**. These are the things plants and animals and ecosystems do that benefit us.

Example: If a healthy population of bats reduces the need for pesticides on farms, then the value of this ecosystem service could be defined in terms of the money that farmers save on pesticides (which includes the costs associated with storage and use).

This number isn't definitive, because bats—and the ecosystems that sustain them—provide other services (some of which we may not currently be aware of), and pesticides may have other social and environmental costs. Still, it does provide an initial look at the economic value of bats, so that we can debate how best to preserve that value from one generation to the next.

True cost accounting and the Triple Bottom Line

Valuing ecosystem services is one aspect of **true cost accounting**, which is also known as **full cost accounting**. This is an attempt to arrive at a more realistic assessment of the costs and benefits of business decisions, by taking social and environmental issues into account.

Businesses that favor this approach measure their business success in terms of a **triple bottom line**, which is usually summed up as **people, planet, profit**.

When implemented wisely, these measures can boost profitability, improve efficiency and employee morale, avoid regulations, and generate consumer goodwill.

Product stewardship

In order to calculate the triple bottom line, it's necessary to look at every stage in the life cycle of your products and services, from "cradle to grave" (i.e., from the sourcing of raw materials to disposal). This is known as **life cycle assessment**.

Product stewardship is an increasingly common way to reduce environmental impact at every stage of the life cycle. Use **OHD 11-2** to highlight typical strategies.

- Environmentally and socially responsible sourcing
- Substituting nontoxic chemicals for hazardous ones
- Pollution prevention
- Reducing, reusing, and recycling waste products
- Designing for reuse and recyclability
- Creating **takeback programs** that allow customers to return products for recycling or safe disposal
- Choosing greener delivery methods
- Conserving energy, water, and other natural resources
- Product redesign
- Educating the consumer and building a collaborative relationship

Will It Last?

Ask the question: *Is green business just a fad?*

Some participants may have tried to implement green policies before, and become frustrated by what seemed like constantly shifting targets and standards. Explain that this really isn't different from other areas of business. There's a lot of trendy advice relating to quality management and computers, and not all of it is accurate or useful. Regardless, quality management and computers are here to stay.

Media hype aside, there are good reasons to believe that green business is here to stay:

- Saving energy, reducing waste, and increasing efficiency can improve the bottom line. Unless the laws of physics are overturned, this will continue to be the case.
- Pollution prevention and materials substitution can help businesses avoid regulations, training costs, disposal costs, and insurance costs.

- New, cleaner technologies are superseding old ones, and there's little reason to go backwards. Consider incandescent lightbulbs, which convert 95% of electricity to heat. We already have different bulbs that are much more efficient, and they're getting better all the time. As this process continues, it gets very hard to make a case for a bulb that's *less* efficient than the industry standard.
- **Competitive and regulatory forces** are intense, and as large businesses take steps to maintain a competitive edge, they drive change throughout the supply chain. **Example:** Wal-Mart now requires suppliers to calculate and disclose the environmental costs of making their products, which Wal-Mart will incorporate into a rating system that shoppers will see alongside the prices for these products.
- Most consumers care about the environment. The percentage of consumers who claim to be uninterested in greener products is less than 15 percent, and shrinking.

Green Business Practices

Businesses that make a commitment to green or sustainable principles usually have relationships with customers, employees, and supply-chain partners that are somewhat different from those of traditional businesses. These differences are often reflected in the business practices they adopt. Use **OHD 11-3** to look at each of these issues.

Customers

Green businesses place an emphasis on communication, transparency, and ongoing dialogue. They expect and welcome constructive criticism from their customers, and are willing to educate customers—respectfully—when necessary. For most successful green businesses, the relationship with customers is basically collaborative, with each side helping the other to grow and improve.

Employees

Customers and employees often expect green businesses to maintain a certain quality of life for employees (e.g., paying a “living wage”). Thus, you may have to strike the right balance between what's affordable, and what reinforces your green image.

The flipside of this issue is that green businesses often attract employees who are looking for a meaningful career, and may be willing to make some sacrifices—or accept a certain amount of non-monetary compensation—to work at a business that's really committed to green principles. Depending on what you have to offer, you may be able to come up with a creative, win-win compensation scheme.

Suppliers and distributors

Bright green business usually make an ongoing effort towards greening their suppliers, distributors, and other partners. Often, this involves writing environmental standards directly into contracts, and enforcing them when necessary.

Green Business Ideas

You should familiarize yourself with the discussion in the **TEXT**, and tailor it to your class. Interesting topics include:

- **Companies that upcycle**, especially because they often pay next to nothing for raw materials. TerraCycle (www.terracycle.com) is the obvious example.
- **Revisiting old technology**. Some inherently green technologies were superseded long before they were perfected (e.g., ship sails), and this creates new opportunities in a resource-conscious economy.
- **Rental and leasing businesses** (e.g., NetFlix, tool lending libraries, baby-clothes rental, etc.) are green to the extent that they reduce consumption, and therefore resource use. In a sense, this parallels the rise of hiring independent contractors instead of full-time staff. Instead of paying for constant access, you pay on an as-needed basis. (Depending on the number and type of manufacturing businesses represented in your class, you may want to **ask the questions**: *Are you on the wrong side of this trend? Could another business rent something you're trying to sell, for a fraction of your price?*)

Remember: A business rarely succeeds just because it's green. You need to offer the right product, at the right price, to the right people, at the right time. That takes research, planning, and more than a little luck. The key? Know your customers and their motivations, and understand where their needs and your abilities intersect.

THE GREEN MARKETPLACE (SEE OHD 11-4)

Motivations for **green consumerism** vary. Some people want to improve their own health, while others are concerned with the health of the environment. Some are following the latest trend, and others are simply curious. Each of these customers will be responsive to a different marketing approach, so before you launch your business, you need to learn all you can about your target customers' motivations.

As explained earlier, there are two broad types of green consumers:

- **Bright green** consumers feel a strong sense of personal responsibility for health and environmental issues, which they express through shopping decisions. They comprise about 17 percent of the population. According to the Natural Marketing Institute, they're currently estimated to be worth about \$200 billion per year. That amount is expected to double by 2010, and quadruple by 2015. This market is often referred to by the acronym LOHAS (Lifestyles of Health and Sustainability).
- **Light green** consumers comprise roughly 35 percent of the population. They tend to be interested primarily in personal health and wellness, but are likely to choose a green product over a conventional one, as long as it's comparable in price and quality. When it comes to making purchases that benefit the environment, they want to do the right thing, but aren't always sure what the right thing is.

An additional 30 percent (approximately) are open to buying green products, but only if they save money or confer some other direct benefit. These are people who might buy CFLs to lower their bills, but probably not to reduce their carbon footprint. Special offers, promotions, and risk-free trials are often necessary to overcome their natural skepticism, and compel them to give a green product a chance.

It's unwise to think of green consumers as having a specific political identity (e.g., liberal vs. conservative). That stereotype is outdated. Nor do green consumers belong to a single demographic. They may be urban, suburban, or rural; male or female; college educated or not.

This makes psychographics vital for green marketers. You must understand what need your product fills, and whether it's psychological or pragmatic. People who are buying for psychological reasons like security, status, self-realization, or altruism tend to place a higher value on green products. People who are buying for pragmatic reasons tend to be more price-conscious.

No matter which group or groups you target, you must know what technology they have access to, which media they pay attention to, how much they're willing and able to spend on products like yours, and what competing products currently meet their needs.

Prioritizing Green Goals

Go back to **OHD 11-1** to recall the typical goals of green businesses. Then, have participants turn to **WORKBOOK SESSION 11** and allow them 5 minutes to work individually on the **Green Goals Worksheet** by filling in the chart for themselves, and then for their customers and competitors. They should enter a "1" for low-priority goals, a "5" for high-priority goals, and a question mark if they don't know the answer.

Once the worksheet is done, ask participants to look at the columns where they entered a question mark. **Ask the questions:** *Does this lack of knowledge affect your ability to succeed in your business? How can you learn the things you need to know?*

Good answers might include market research, surveys, casual conversations with customers, or a poster or info sheet with a comment box.

If a business owner has a high-priority goal that customers don't seem to care about, does this mean that the business owner shouldn't pursue that goal? Not necessarily! Suppose you have a favorite fishing hole, and run-off from cement surfaces is polluting it to the point that the fish population is dwindling. This may not be a problem your customers would think about, normally. But if you educate them politely and positively, and explain why the issue is important to you, they may come to appreciate and support your efforts to reduce water pollution.

Ask the questions: *How can you make these numbers match? If your customer cares less about an issue than you do, how can you change that? And if you care less about an issue than your customers or competitors do, do you need to change your mind?*

The point of this exercise is to identify gaps between the participants' perceptions and those of their customers and competitors, because this will affect the feasibility of their plans, as well as their marketing strategies.

GREEN BRANDING AND MARKETING

Many businesses are trying to build green brand identities. **Ask the question:** *What happens to these businesses if **every** brand is green?* Unless there's more to their brand than being green, they probably won't make it!

The lesson? Don't be a green business; be a business that embraces green principles in support of a larger mission. **Ask the question:** *What makes you passionate about your business? What makes you confident that you have more to offer than your competitors? How do you make your customers aware of these ideals?*

Branding must communicate and celebrate your business's passion and excellence, above and beyond environmental ethics. Customers should feel that the green aspects of your business are a natural outgrowth of qualities and values that inform everything you do. Don't get so wrapped up in being green that you lose sight of the other things that are special about your business, your employees, and you!

Green Marketing

Use **OHD 11-5** to go over the reasons that consumers buy products.

Ask the question: *How many of you are always careful to buy products that help the environment?* In a typical class, few hands will be raised. This makes an important point: Studies show that most consumers want to make environmentally sound buying decisions, but they also show that few of them put their money where their mouth is.

That's why you should promote all the traditional benefits of your product, and then use your green credentials to seal the deal. Studies show that when customers have a choice between two products of roughly the same price and quality, they overwhelmingly prefer the greener option. Thus, your green marketing claims should be consistent with, and enhance, your overall message about your product's quality, convenience, and so forth.

Use **OHD 11-6** to discuss the basic rules for green marketing claims.

Communicating Green Benefits

As with any other type of business, many green start-ups will fail. The businesses that survive will be led by people with excellent business and organization skills, a strong customer orientation, detailed knowledge of market trends and new technology, and an ability to communicate *all* the benefits of their products.

Use **OHD 11-7** to highlight important communication tactics.

- **Know your target market.** How you communicate environmental benefits must take the motivations and aspirations of your customers into account.
- **Understand your customers' everyday needs.** If your green product doesn't fit into the customer's lifestyle, or has a steep learning curve, it's likely to be rejected. It's a common mistake for green businesses to be too far ahead of their customers.
- **Don't oversell green features.** Whether your customers are green or not, they'll look closely at other selling points, like usefulness, convenience, price, efficiency, attractiveness, and value. You need to market *all* the benefits of your product to win them over.

- **Strike the right balance between price and benefits.** How much more people will pay for green products depends on the nature of the product, and the customer's overall perception of benefits. **Example:** Someone who's willing to pay an extra dollar for pesticide-free strawberries may not be willing to pay an extra dollar for biodegradable golf tees.
- **Don't exaggerate.** Don't claim you've achieved things until you've actually achieved them. Instead, focus on the ongoing process of improvement.
- **Don't overreach.** Emphasize that you're working towards green goals, and welcome the public's help and input.

Greenwashing

Companies that make false or misleading environmental claims for their products, or launch a high-profile green product while continuing to profit from environmentally destructive policies, are often accused of **greenwashing**.

As of this writing, the FTC is working on tightening its legal standards for green marketing claims. But the main reason to avoid greenwashing is that it's unethical, and it's almost certain to bring you negative PR, which will ultimately affect your sales. Always assume that green-oriented customers and advocacy groups will evaluate your claims skeptically, and don't make claims you can't back up with facts.

Pricing

You've probably seen news articles that say many consumers will pay up to 20 percent more for green products. Other studies suggest that the "green premium" is probably no higher than eight percent, and is far less commonly paid than surveys would lead you to believe.

Again, don't assume you'll get a premium price just for being green. You need to compete on price, convenience, style, attractiveness, effectiveness, durability, etc.

When possible, it's wise to keep prices competitive with those of non-green alternatives. Remember: Given a choice between two products with a similar price, most people prefer the greener option!

Ask the question: *What kind of features might lead you to pay more for a product?*

While answers will vary, many of them will boil down to brand image (e.g., reputation, trust, reliability). This is important to emphasize, because it makes the connection between branding and pricing: Perceived value depends on brand image.

Other reasons might include convenience or time savings, security or reduced risk, and social status. The more of these things you can offer, the more likely you are to get a premium price.

Although bright green buyers are more likely to pay a premium price, they're also likely to check green claims carefully, and to demand a higher level of environmental commitment. If you're going to target these buyers, be very sure that you understand their needs and their psychology, and that you can deliver on any promises you make. If you fail to deliver for these buyers, they're unlikely to give you a second chance. They're also likely to give you negative word of mouth, which is particularly dangerous because of the influence that bright green buyers tend to have in environmentally conscious markets.

Placement

Your distribution strategy ought to reinforce your image as a green business. That's why it's important to work with distribution partners who are familiar with green business concepts.

Things to take into account when selecting a green distribution strategy include delivery time, perishability, profit margins, customer expectations, competitors' strategies, and resource use (e.g., offering downloads instead of hard copies, or using delivery or service vehicles that run on alternative fuels).

Service businesses must also have a distribution strategy. Think about where you'll serve your clients, and what environmental consequences this has.

MANAGING GREEN

Most of this long section of the **TEXT** comprises advice on saving energy, water, paper, and other resources. It's a terrific resource, and one we hope participants will refer to often as their businesses grow. But it's not really practical to run through it in class.

Instead, we recommend briefly discussing costs and benefits, as illustrated by the following examples of compact fluorescent bulbs (CFLs) and solar hot water systems.

Prior to teaching the class, read the sections on **compact fluorescent bulbs (CFLs)** and **LED lighting**, and use them to illustrate the concepts of **purchase price** vs. **value in use**. Here are the main points to remember:

- Incandescent bulbs convert about 95% of the energy they receive into heat
- Fluorescent tubes have been saving energy for decades in offices and schools, but CFLs are cheaper, easier to use, more energy efficient, and contain less mercury.
- CFLs have a higher price than incandescents, but their total cost is much lower. **Do the math:** 50,000 hours' worth of incandescent lighting would cost \$12.50 for the bulbs, and \$300 for electricity—a total cost of \$312.50. If you used CFLs, the same number of hours would cost you \$34.50 for the bulbs, and \$75 for electricity — a total cost of \$109.50. This is a good example of value in use.

It's common for people to be concerned about the mercury in CFLs, and this may come up in class. If so, two points will almost certainly need clarification:

- More than half of America's electricity comes from coal-fired power plants, which are the nation's largest source of mercury pollution according to the EPA. The extra electricity that traditional bulbs require actually releases more mercury than CFLs over the life of each bulb.
- Contrary to a popular Internet myth, breaking a CFL will not bring the EPA down on your business, or require you to call in a hazmat team! Sweeping up the glass and wiping the area with a damp cloth is sufficient. Costco, Wal-Mart, and other retailers offer free recycling bins for CFLs.

That said, most experts consider CFLs to be a transitional product. More efficient, mercury-free LED bulbs are expected to replace them within the next decade.

Next, you can discuss **solar hot-water systems**, with an emphasis on the time needed for return on investment. Suppose a system costs \$5,000. How soon will it pay for itself?

Ask participants to raise their hand if they have a gas water heater at home. Choose one respondent, and ask him or her to estimate how much natural gas costs per year.

Generally, 20 percent of this cost goes to heating water. So if the participant spends \$1,200 a year, the water heater probably accounts for \$240 of that total. Do the math on a flip chart or board.

$$\text{\$1,200} \times .2 = \text{\$240}$$

At that rate, a \$5,000 solar water heater would take roughly 20 years to pay for itself.

$$5,000 \div 240 = 20.83$$

However, state or local rebates or grants may cover much of the cost, which would reduce the amount of time necessary to break even.

Also, consider what happens if natural gas prices increase. Solar water heating may offer you some cushioning against rate hikes. Does this mean it's a good idea to install it? That depends. For businesses in sunny areas that use a lot of hot water, it could be a great idea! But you can't know until you do the math.

Pollution Prevention

Whether you want to protect the environment, save money, or avoid burdensome regulations, **pollution prevention** is the way to go. Use **OHD 11-8** to explain the basics:

- Collect data, either by monitoring your waste stream or getting a waste audit
- Set appropriate, affordable, attainable goals
- Educate and involve all employees
- Set standards for handling and disposing of waste, trash, and recyclables
- Practice good inventory management to reduce potential for spills and spoilage
- Research materials substitution and green procurement options (e.g., replacing Styrofoam peanuts with biodegradable material)

Product Redesign

The goal of product redesign is to get rid of unnecessary inputs and production stages, and where possible, to use more environmentally friendly designs, materials, and processes. (This also applies to service businesses, which should take a careful look at the materials they use, and how, when, and where they deliver their services.)

Here are the basic steps in the redesign process:

- Take a long, hard look at everything that goes into your product
- Assess its economic and environmental impact at every stage of its life cycle (resource extraction, manufacturing, packaging, shipping, consumer use, disposal)
- Make improvements that are appropriate, affordable, and attainable

Product redesign can also change consumer behavior. The text contains a description of the evolution of soda-can tabs, which is a simple example of responsible design. This is a good story to familiarize yourself with, so you can discuss it in class. Note that the modern fixed-tab can reduced pollution *without* asking consumers to change behavior.

Ask the question: *Suppose you don't want the plastic packaging for your product to end up littering the streets or taking up space in landfills. How could you redesign it?*

Good answers might include using biodegradable or recyclable packaging, or using a package that people can use for something else when they're done. Remind them that innovative packaging can provide a competitive advantage, reduce shipping costs and breakage, and communicate your brand identity.

Have participants turn to the ***Materials Substitution Worksheet*** in **WORKBOOK SESSION 11**. Explain that they can choose several products or ingredients used in their business, and research green alternatives. The goal here is to make participants familiar with the research process. **Emphasize that they will do this work optionally, on their own time.**

Note that the first row in the chart has been filled in with (fictional) products, along with their source and cost. Explain that once participants have filled in the blank spaces, they should choose one product for further research, and continue working through the questions. This will serve as an introduction to the process that participants should go through every time they consider materials substitution. Depending on the results of this activity, they may need to change the product description and other aspects of the business plan.

IS IT FEASIBLE?

Whether you're starting a green business, or greening an existing one, never forget the old-fashioned definition of a "sustainable business": one that takes in more money than it pays out!

Covering your building with solar panels is great...but if you can't afford the monthly payments, your business won't be around long enough to make a real difference.

Fortunately, a lot of green solutions are simple. It's always feasible to turn off lights, and set computers to go to sleep after ten minutes, use both sides of printer and copier paper, and recycle waste paper. Any business can do these things, and all of them should.

But some policies will require a bigger commitment, raise special questions, and require a feasibility study.

When assessing feasibility, points to consider include:

- **Marketing feasibility.** Are you going green in response to consumer demand, or will you need to educate your customers? Will you set a low price to which green elements add value, or a premium price for discerning, high-end buyers? What distribution strategy do your customers prefer: Internet, wholesale, retail? How will the strategy help you to meet your pricing and sales goals?
- **Feasibility of personnel.** Do you have the right mix of personnel to make your idea work, and do they have the training they need? Have they bought into the green concept? Are they enthusiastic, and able to explain the benefits to customers and partners?
- **Logistical feasibility.** If you switch to a green version of a product, will it perform as well as the old product? Be sure to test new products thoroughly, and make sure that they're available in the amount and timeframe you require.
- **Legal feasibility.** Some green ideas or products may be regulated in your city. (Example: Greywater systems that recycle water from washing machines and sinks are illegal in some cities, and require a permit in others.)

Getting Help

Many utilities and states offer rebates for energy-saving equipment and facility improvements. Some also offer low-interest loans for upgrades. Also, the Energy Independence and Security Act of 2007 stipulates that Small Business Development Centers (SBDCs) must do more to help small businesses save energy. Before teaching the class, we recommend that you ask your local utility, state energy office, and state utility regulator for information on financing, rebates, and tax breaks.

Alternatively, you can visit the Database of State Incentives for Renewables and Efficiency (www.dsireusa.org).

GUEST SPEAKER



Successful green entrepreneur or green business consultant

Prepare some questions that you would like your guest speaker to address, and give them to your guest well in advance of class.

Suggestions:

- Why should someone who's not really interested in green business start paying closer attention to it?
- How and why did you get involved in green business?
- Can you discuss external costs and the purpose of "true cost accounting"?
- Can you give a case history of a business that saved money or became more profitable after going green?
- What do you envision as upcoming green opportunities for your business (or clients)?
- How do you keep up with all the new green technology and processes? How do you separate what works from hype?

WORK HOUR SUGGESTIONS

Exercise

Be prepared to use this time to work on problems, or catch up on any areas that this particular class may be struggling with. Once again, consider whether an additional work session or week off is needed before Session 12.

Homework Review

Answer questions on any section of the business plan.

Workbook Preview—Session 11

Review the Workbook instructions, including updating the Action Log. Have participants look at the list of Supporting Documents. Answer questions about what needs to be included, based on their particular use of the business plan. Remind participants to look at the questions in Session 12, which will be discussed during the next class.

Assignment Review

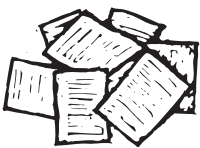
Review the reading assignment for Session 12. Discuss whether you want the completed business plan turned in next session, or if you have some additional work time planned before graduation. Discuss graduation plans if they are to be included in Session 12.

Have participants look at the **Cover Page**, **Table of Contents**, and **Appendix** contents in the *NxLevel® Sample Business Plans*. Discuss how you want the completed plan turned in (in a binder or not, with or without dividers for the sections, etc.)

OVERHEADS AND HANDOUTS AVAILABLE FOR SESSION ELEVEN

OHD	11-1	Why Businesses Go Green
OHD	11-2	Product Stewardship Basics
OHD	11-3	Green Business Practices
OHD	11-4	The Green Marketplace
OHD	11-5	Why Do Customers Buy?
OHD	11-6	Rules for Green Marketing
OHD	11-7	Communicating Green Benefits
OHD	11-8	Pollution Prevention Tips

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION ELEVEN



- Articles about true cost accounting
- Green consumer data from the Natural Marketing Institute (www.nmisolutions.com)
- Articles on upcycling, materials exchanges, and similar issues
- Energy efficiency ratings for various office equipment
- Stories about cradle-to-cradle design
- Articles on green business opportunities in the EU and other foreign countries

You have the option of finding these articles/publications for use in class, or asking students to search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes below.

Supplemental materials used for Session Eleven

Notes

Why Businesses Go Green

BUSINESS REASONS

- ◆ **Beat the competition**
- ◆ **Catch up to the competition**
- ◆ **Win new customers**
- ◆ **Satisfy a request from customers**
- ◆ **Earn or save money**

LEGAL REASONS

- ◆ **Avoid regulatory burdens**
- ◆ **Meet legal requirements**

ENVIRONMENTAL REASONS

- ◆ **Save natural resources**
- ◆ **Benefit or protect the environment**

POLITICAL REASONS

- ◆ **Achieve energy independence**
- ◆ **Effect a political change**
- ◆ **Solve or prevent a crisis**

ETHICAL REASONS

- ◆ **Benefit future generations**
- ◆ **Benefit animals**
- ◆ **Benefit or protect a community or culture**

Product Stewardship Basics

- **Environmentally and socially responsible sourcing**
- **Substituting nontoxic chemicals for hazardous ones**
- **Reducing, reusing, and recycling waste products**
- **Designing products for reuse and recyclability**
- **Creating takeback programs that allow customers to return products for recycling or safe disposal**
- **Choosing greener delivery methods**
- **Conserving energy, water, and other natural resources**
- **Product redesign**
- **Educating the consumer and building a collaborative relationship**

Green Business Practices

Customers

- **Emphasize communication, transparency, and ongoing dialogue**
- **Expect and welcome constructive criticism from customers**
- **Willing to educate customers when necessary**
- **Relationship is ideally collaborative, with each side helping the other to grow and improve**

Employees

- **Customers and employees may expect green businesses to offer competitive or better wages, working conditions, and benefits**
- **May attract employees who are willing to make sacrifices to work at a meaningful job**

Suppliers and distributors

- **Usually make an effort to green the supply chain, often by writing environmental standards directly into contracts**

The Green Marketplace

Bright Green Consumers

- Roughly 17% of the population, and growing
- Committed to environment and health-conscious buying
- Estimated to be worth \$800 billion by 2015

Light Green Consumers

- Roughly 35% of the population, and growing
- Concerned mainly with personal health and wellness
- Prefer green products, but do not buy them consistently
- Will usually buy green if the price is the same
- Often become bright green if educated and encouraged

Conventional Consumers

- Roughly 30% of the population, and shrinking
- May buy green products that offer direct personal benefits (lower costs, convenience, easier use, longer product life), as long as cost is comparable
- May be skeptical of green products, but can sometimes be won over by free offers, discounts, etc.

Non-Green Consumers

- Roughly 10-15% of the population, and shrinking
- Interested primarily in price and personal image
- Uninterested in (or hostile to) environmental issues, but may increasingly buy green products (e.g., CFLs) simply because that's what's available

Why Do Customers Buy?

- ◆ **SELF-IMAGE:** They want to feel better about themselves.
- ◆ **HEALTH AND SECURITY:** They want to feel safer.
- ◆ **TIME SAVINGS AND CONVENIENCE:** They don't want to waste time.
- ◆ **UNIQUENESS.** The product is one of a kind.
- ◆ **REWARDS AND GIFTS:** They want to reward themselves or others.
- ◆ **ALTRUISM:** They want to help people, animals, or the environment.

Rules for Green Marketing

TAKE YOUR TIME! Work the bugs out before marketing your idea.

BE HONEST! Don't make claims you can't back up with facts.

BE CONSISTENT! Don't undermine your green message.

BE EXCITING! Give customers reasons to feel good about buying from you.

BE POSITIVE! Don't describe a problem without offering a solution.

BE SPECIFIC! Don't make vague claims that you can't defend with facts.

EDUCATE YOUR CUSTOMERS! Tell them what you're doing and why it matters.

GET THEM INVOLVED! Explain what customers can do to help, and how getting involved will help them.

Communicating Green Benefits

KNOW YOUR TARGET MARKET! Take the motivations of your customers into account.

UNDERSTAND YOUR CUSTOMERS' EVERYDAY NEEDS! Your green product needs to satisfy the same basic needs as the products it's competing against, or it's likely to be rejected.

DON'T OVERSELL GREEN FEATURES! Market **ALL** the benefits of your product.

BALANCE PRICE AND BENEFITS! Some environmental benefits are worth more to consumers than others. Don't assume that all green products are created equal!

DON'T EXAGGERATE! Don't claim you've achieved things until you actually achieve them.

DON'T OVERREACH! Emphasize that you're working towards green goals, and ask for help.

Pollution Prevention Tips

- **Collect data**
- **Set appropriate, affordable, attainable goals**
- **Educate and involve all employees**
- **Set and enforce standards for handling and disposing of hazardous waste**
- **Practice good inventory management to reduce the potential for spills and spoilage**
- **Research materials substitution and green procurement options**

Learning Objectives

- Understand negotiating processes and techniques
- Understand effective contract management
- Examine reasons for growing your business
- Recognize the pitfalls of unmanaged growth
- Gain knowledge of tools for managed growth, including project management and financial management
- Understand supply chain basics and current trends
- Evaluate your NxLeveL® learning experience

Your Business Future: Negotiating, Managing Growth, and Plan Completion Session Twelve

Date: _____

Due: The Plan!_____

Class Opener

Instructor Topics

1. Negotiations and Contract Management
2. Managing Growth
3. Supply Chain Management

Course Evaluation

Break and Graduation—all remaining time

Learning Objectives

- Understand negotiating processes and techniques
- Understand effective contract management
- Examine reasons for growing your business
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- Evaluate your NxLevel® learning experience

Your Business Future: Negotiating, Managing Growth, and Plan Completion Session Twelve

Date: _____

Due: The Plan!_____

Class Opener (10 min.)

Articles of interest, best / worst news, brain teaser, etc.

Instructor Topics (60 min.)

- | | |
|------------------|--|
| (20 min.) | 1. Negotiations and Contract Management <ul style="list-style-type: none">• Negotiation Strategies• The Process of Negotiation• Contract Management |
| (25 min.) | 2. Managing Growth <ul style="list-style-type: none">• Should You Grow?• Pitfalls of Unmanaged Growth• Tools for Profitable Growth |
| (15 min.) | 3. Supply Chain Management <ul style="list-style-type: none">• Supply Chain Concepts• Sourcing and Quality• The Green Supply Chain |

Course Evaluation (20 min.)

Break into small groups and discuss the following:

1. What did you like most about the class?
2. What did you like least about the class?
3. Which guest speakers were most effective? Least effective?
4. What module would you shorten? Lengthen?
5. What module(s) would you like to see added? Deleted?
6. What suggestions do you have for Instructor/Facilitator improvement?
7. What was the most important thing you got out of class?

Break and Graduation—all remaining time

See Additional Instructor Notes For Graduation Ideas

NEGOTIATIONS AND CONTRACT MANAGEMENT



NOTE: We recommend that you read the negotiating chapters in the **TEXT** so you have a better understanding of this material and how you want to present the negotiating issues.

Your success as an entrepreneur depends on your ability to negotiate deals, close and manage sales, and (most important) get paid. Negotiation is also a crucial skill for resolving conflict and creating profitable business deals.

Remember: Businesspeople are always negotiating, whether they like it or not. The question is, will you learn to become good at it?

What is negotiating? Identifying goals and interests among two or more parties, and creating mutually beneficial (win-win) solutions. Use **OHD 12-1** to introduce the basics of negotiation.

Ask the question: *With whom do you negotiate, and why?* Log answers on a flip chart or board. Then, discuss whether you use the same negotiating tools and processes for all parties listed.

Many people see negotiation as a conflict that the more aggressive negotiator always wins. In reality, the best negotiators are cooperative and flexible. They know that their long-term interests depend on creating a **win-win outcome** that leads to a stable working relationship.

Use **OHD 12-2** to highlight the traits of effective negotiators.

Negotiation Strategies

Use **OHD 12-3** to highlight different negotiating strategies.

- **Hard negotiators** seek a win-lose (or zero-sum) outcome at the expense of the business relationship. They're aggressively competitive, and often resort to threats or bluffing.
- **Soft negotiators** seek a positive relationship at any cost. They focus on minimizing differences, and will readily make concessions.
- **Win-win negotiators** are neither hard nor soft. Instead, they combine the best of both approaches by being hard on the problem and soft on the participants. The goal is to approach problems cooperatively, and achieve a mutually beneficial outcome through open, honest communication.

Good negotiators understand themselves and what they want out of the process, but they also try to find where their own interests and those of their counterparts overlap. They take into account the other side's interests and perspectives, and use negotiation skills to resolve conflict and create win-win solutions.

Interests vs. positions

Your **position** is what you say you want (more money, faster turnaround, larger orders). Your **interests** are what you actually need in order to be successful.

It's important to understand the difference. Otherwise, you may spend a great deal of time arguing over positions, only to end up with an agreement that doesn't satisfy your interests.

The Process of Negotiation

No matter who you are or what approach you take, the negotiation process generally contains the same stages (see **OHD 12-4**).

- **Setting an agenda.** What is the purpose of negotiating? What problems do you and your counterpart need to solve? What is the timeframe? What standards and benchmarks apply? How will the deal be formalized?
- **Voicing demands and offers.** Present and evaluate proposals (usually the best-case scenario, from each party's perspective).
- **Working to minimize differences and satisfy interests.** This is the stage at which compromises and trade-offs are made.
- **Closing the deal.** Both parties agree to hold up their end of the bargain.

Preparing for negotiations

- **Identify your interests.** What do you want out of the process? List your interests in order of their importance. These interests are the currency in which you will be dealing, so determine how much each is worth in relation to the others. In how many ways can your interests be met? What are you willing to give up to get what you need?
- **Identify your Best Alternative to a Negotiated Agreement (BATNA).** If negotiations don't work out, what are your options? What other opportunities do you have? Do you have offers from other investors if this one falls through? Or would failing to reach an agreement mean that your business would have to close its doors?
- **Identify your settlement range.** You probably know what you want out of your negotiations, but you also need to think about what you don't want! What's the very least you need to achieve in order to feel good about the deal? What is the point below which you can't go? What is the minimum you need to achieve in order to feel that the agreement, though not perfect, is worthwhile?

Overcoming problems (see OHD 12-5)

- **Recognize manipulative tactics.** Whether you bring them to the other person's attention or not, recognizing manipulative tactics (e.g., stonewalling, bullying, deception) will improve your sense of control and confidence.
- **Open your ears.** Being a careful listener is the best advantage you can have. It gives you the ability to understand where interests intersect; this is how enduring agreements are made.

- **Get in the other person's shoes.** Instead of getting frustrated with your counterpart's tactics, try to understand and appreciate his or her point of view. This approach is beneficial to you, and it can also disarm your counterpart.
- **Slow down and regroup.** When negotiations get tense, step back, put aside your assumptions and emotions, and look at the negotiation as an outside observer would. Having cleared your head, you'll be ready to engage more effectively.
- **Get off the hot seat.** No matter what the other person says, never make an important decision on the spot. Good negotiators always disengage, and go to a safe location to make their decisions.
- **Know when to walk away.** Sometimes, your best course of action is to stand up and calmly walk away from the negotiations. Knowing your "walk-away" threshold in advance strengthens your position, and gives you a solid footing from which to judge the other side's proposals.

Contract Management

Contract management means implementing practices that keep your contractual relationships running smoothly. Delivering exceptional performance under contract requires continuous, consistent management. And it's becoming more important all the time. Outsourcing and offshoring, working with freelancers and partners, the shift to simplified e-procurement systems among government and big business, selling overseas via e-commerce...all of these things require conscientious attention to contract terms and performance.

In addition, most small business have leases, software licenses, maintenance agreements, warranties, Website hosting agreements, and dozens of other contracts to manage. Use **OHD 12-6** to discuss the key tasks of contract management.

Nurturing your partnerships

Nurturing a contractual relationship means understanding each other's performance standards, time constraints, business priorities, and management culture. How does your partner business make and implement decisions? What are its competitive strengths? What does it value in its business dealings? Understanding these things will help you to anticipate and satisfy the needs of your partners.

Contract management software

Contract management software is becoming more powerful and affordable all the time. It can track performance, compliance, and deliverables, and tell you when it's time to perform contractual duties. Most important, it reduces the risk of losing vital documents, by creating an electronic backup of all your contracts and contract-related data.

Participants have the option of installing such programs on their own computers, or using a hosted **software as a service** solution.

Note that software applications don't solve problems unless your team understands them, adapts to them, and uses them. A well-organized, motivated team that is committed to exceptional service can do wonders with contract management software. A team that's confused or dispirited won't be helped by programs of this type. Too many firms buy expensive software products to "solve" problems that actually come from low morale, or a lack of management structure.

Exceeding expectations

Exceeding expectations creates loyal customers and partners. Here are some tips:

- **Be speedy and professional.** Do things right, and do them on time, or ahead of schedule.
- **Follow up on service.** Make sure that all questions or issues have been resolved.
- **Share your expertise.** Always work to make your customers and partners more competitive.
- **Always be accessible.** Communication is the key to maintaining and building positive business relationships.

Staying in touch

Ask the questions: *How important is ongoing personal contact with your partners? What methods do you use to ensure that you stay in touch? How do you measure the results of your efforts?*

Then, use **OHD 12-7** to discuss tools that can keep you connected with your partners.

Review Your Performance

The importance of reviewing your business's performance can't be overemphasized. You can only improve by understanding and critiquing your past performance. This applies to all aspects of your business.

Reviewing your performance entails:

- Comparing the results you got to the results you expected
- Identifying strong and weak points
- Identifying opportunities for change and improvement
- Establishing a timetable for the next contract period
- Soliciting and listening to feedback from your contract team

Always look at current work as laying the foundation for a future contract. Leverage your existing relationships, and look for ways to form others. Develop a track record and loyal business partners, and you'll have a solid foundation upon which to grow.

MANAGING GROWTH

The biggest challenge confronting you as an entrepreneur is to choose the right time and the right way to grow your business. Above all, it requires a confident understanding of the financial tools available to the manager of a growing business.

Should You Grow?

Ask the question: *Why would you want to grow your business?* Log answers on a flip chart or board. Then, compare to **OHD 12-8** and discuss. (The most frequent answer is to enhance earnings and profits. See how many other reasons participants come up with before showing the overhead.)

Is growth right for you?

Growth can make managing your business more complicated and time-consuming, and it may require you to give up some control (e.g., by delegating, or because you need equity financing).

Growth affects your customers, too. As your business evolves, your goal should be to grow only as much as will allow you to serve your customers effectively and profitably.

Is your business ready for growth?

The most common obstacles to successful growth are insufficient planning, lack of financing, and failure to follow an existing plan. Generally speaking, you can't grow safely unless you have a rock-solid core business that is strongly competitive within its market. You should also be an expert on the current state of your target market, and any trends that affect it. Emphasize the importance of the **NxLevel Business Plan** to well-managed growth.

Are you ready for growth?

Ask the questions: *How would you feel if your business were suddenly twice as big? Could you handle that with no problems, or would it take a lot of readjustment in your personal and business life? Would you still have time for family, friends, and leisure activities? Would you have to give up direct oversight of certain business functions, and trust someone else to do them?*

Too few entrepreneurs think about the practical effects of growth. Stress the importance of being emotionally prepared for the challenges of a growing business.

Pitfalls of Unmanaged Growth

Just as starting a business should be an active decision, so should deciding to grow your business. All too often we hear stories of entrepreneurs who just fell into growth without planning, only to be out of business (because they were out of resources) within a year.

Ask the question: *What do you think are some consequences of unmanaged growth?* Log answers, then compare and discuss items on **OHD 12-9**.

Tools for Profitable Growth

Successful entrepreneurs distinguish themselves not only by a keen understanding of their markets, but also by their ability to plan for and manage growth.

Emphasize the importance of **cash management, team management, time management, financial management, project management, and stress management** to safe and profitable growth.

Innovation

Above all, stress the importance of **innovation**. The role that innovation plays in attracting and keeping customers can't be overemphasized.

Whatever your business does, countless competitors are trying to do it better. Inventors all over the world are working on products that could supersede your product and put you out of business.

In other words, what's great today may not be good enough tomorrow.

Therefore, planning for growth requires a focus on innovation. You can start by using your business plan as a tool for growth through innovation.

Remember: If you aren't financially, emotionally, and intellectually ready to innovate, your employees won't be either.

Updating your business plan

Ask the questions: *How often do you think your business plan should be updated? For what kind of growth scenarios should you revise your business plan?*

Any time you're seriously considering growth, you should update your business plan, with questions like these in mind:

- Does my business plan accurately reflect my business today? Are my original goals and standards still reasonable? Are my assumptions still valid?
- What new product or market growth opportunities are available? Has cost structure and pricing in my industry changed? Has the competitive landscape changed?
- What threats and opportunities does my business face? What are my business's strengths and weaknesses?
- Do new regulations apply to my products, employees, or raw materials? Are there any new technologies that affect my ability to compete?
- Am I serving the customers targeted in my business plan? Have their needs changed? Has my ability to meet their needs changed? Am I meeting quality and service goals?
- Will I need to hire new staff? Will I need a larger office, factory, or warehouse in order to make room for additional equipment, materials, inventory, and personnel?
- How much financing will I need to grow, and where will I get it?

Planning for profitability

Particularly in early or rapid growth stages, the costs of ramping up (adding new equipment, additional operating expenses including additional employees, a new location, etc.) can easily erode profits. Without profitability, you are forced to find additional funding, which adds to your costs.

Without profitability or a loan, you have no capital to grow your business. There are three basic strategies to grow your profitability, which tie directly back to the Break-Even Analysis discussion in Session 8. (See **OHD 12-10.**)

- Increase your sales (without increasing your fixed costs)
- Reduce your fixed costs (without decreasing your sales volume)
- Increase your contribution margin by:
 - Increasing sales price (without decreasing sales volume)
 - Decreasing variable costs
 - Changing product/service mix to those with higher contribution margins (without decreasing sales volume)

Understanding profitability issues is essential to growth management. Although sales volume, market share, and employee growth can all be indicators of success, a truly thriving business is one in which profit is maximized. Use **OHD/Handout 12-11** to emphasize these critical points for successful growth:

- Profit growth is the most important metric. All others types of growth (volume, market share, number of employees, size of the company) increase costs, and are therefore contrary to profit growth.
- Policies should allocate assets to maximize profit.
- Company and product branding is critical to profits.
- Customer knowledge and management is the most important focus in a growth company.
- Time spent on things that don't maximize profit will slow your growth.
- Cost controls are important, but companies cannot save their way to growth.
- Growth strategies begin and end with the company's leader.
- All employees and stakeholders must pull together to be successful.
- Employees are your most important resource. Focus on people, not data.
- To be successful, make others successful!

Point out that the manager of a growing business would do well to post **OHD/Handout 12-11** prominently, and refer to it daily, to keep growth policies on track.

Financial management

Careful financial management is a necessity. You'll need to be able to demonstrate to prospective lenders and investors that you know how to budget, how to manage your cash flow, and how to perform cash flow projections.

- **Review the biggest drains on cash flow.** These are: interest payments on debt; cash tied up in excess inventory; uncollected accounts receivable.
- **Remind class to calculate cash flow every week.** It's not the most exciting part of running a business, but it's one of the most important!

Ratio analysis is an essential part of financial management. There are two primary types of ratio analysis:

- **Internal analysis** means comparing ratios for your business over time (e.g., comparing a ratio from 2008 to the same ratio in 2010).
- **External analysis** means comparing a ratio for your business to that of your competitors, or an industry standard.

Having done so, use **OHD 12-12** to remind students of the four primary types of ratios.

Good financial management requires the right accounting software. Many entrepreneurs cripple their businesses by choosing accounting software that doesn't meet their needs, or is beyond their capabilities. Using **OHD 12-13**, explain the criteria for choosing **accounting software**.

Project management

Projects can be defined as **specific, unique, well-defined events with a definite start and finish date, which are always undertaken with a degree of uncertainty and risk**. Project management is the process of defining, planning for, and accomplishing projects, while minimizing uncertainty and risk.

Use **OHD 12-14** to introduce the four phases of project management.

The responsibility for project management belongs to the **project manager**, who must perform the following tasks:

- Develop the scope of the project
- Outline a best-guess timeline for the work
- Screen and select team members
- Develop work processes and performance expectations
- Facilitate project meetings
- Manage conflict and motivate team members
- Communicate milestones and information to team members and stakeholders
- Protect the team from disruptive outside pressures
- Keep team on scope, on schedule, and on budget
- Reward high achievement and remove unproductive team members
- Close out the project and prepare the final report
- Coordinate roll-out of project results when needed

There are certain tools that are very helpful in project management. The main one to emphasize here is the **NxLevel Action Plan**, which appears in **WORKBOOK SESSION 12**. Use **OHD 12-15** to explain when to use it, and how to fill it out.

If time allows, introduce other project management tools, like **Gantt charts** and **Critical Path Analysis (CPA)**. Emphasize that there are many software programs that can create these charts and simplify other aspects of project management. Finding a good program should be a priority for anyone who wants to improve project management skills, particularly if growth is their goal. You can also refer students to the Tech Tip in Chapter 47 *Project Management*, which discusses software options.

SUPPLY CHAIN MANAGEMENT

Use **OHD 12-15** to define basic terminology. Encourage participants to identify their supply chain, and their position in the supply chains of other businesses. The goal is to get them to see themselves as part of an integrated whole. Remember: No part of the supply chain can be viewed in isolation. Every part of it potentially affects, and is affected by, all the other parts. Even if your raw materials or components come from a warehouse a mile away, that warehouse may receive them from suppliers all over the world!

Supply Chain Concepts

If possible, reference or distribute copies of articles of interest from leading business news sources that illustrate such basic supply chain concepts as strategic alliances, functional integration, global logistics, and outsourcing.

Describe the demand-driven **pull philosophy**, which states that the customer's need for a product should determine production levels and all other activities in the supply chain. The essential points to emphasize are:

- The increasingly **collaborative** nature of the supply chain (e.g., coordinating production schedules, or sending POS data instantly to suppliers)
- The associated demand for **transparency** and equal (or at least compatible) levels of technology among supply-chain partners.

Some key points about transparency and information-sharing in the supply chain:

- Everybody needs access to information via a common communications system.
- When information is unavailable or incomplete, all supply-chain activities suffer.
- Lack of transparency breeds suspicion, and hides problems and inefficiencies.
- Accurate, timely, useful information, made available to supply chain partners via your communications channel, is key to weathering disruptions.

Sourcing and Quality

Explain the importance of supply chain concepts when sourcing materials, and how sourcing choices affect the quality of goods and services.

- Where are the sources located, and who controls them?
- What level of quality do you need?
- What are the cultural, economic, legal, political, and logistical issues?
- What are the pros and cons of choosing a given source?

The Green Supply Chain

Green procurement practices are increasingly popular. Although this is partly due to environmental issues and consumer demand, many businesses implement these policies in order to weed out inefficient processes and unnecessary inputs.

In many cases, a greener supply chain proves to be a more efficient and cost-effective one, because it requires you to identify waste, underutilized resources, inefficient channels and subchannels, redundant production stages, unreliable partners, and inefficient or outdated equipment.

The greener your suppliers are, the greener your business will be. By the same token, environmental policies that fail to address supply-chain issues will be superficial at best. Remember: No part of the supply chain should be viewed in isolation.

Here are some issues to think about:

- How is the product manufactured? Where do the materials come from? Can you source them locally to reduce fuel use?
- What packaging materials do you use? Can you make them greener, or get rid of some of them altogether?
- What happens to your product at the end of its life? Can you refurbish the product, or reuse its container? Should you take it back to ensure that it's properly recycled?

These are the sorts of questions businesses are asking as they attempt to green their supply chains. This may sound complicated, but the collaborative nature of the supply chain ensures that countless businesses, products, and services are being created to help small-business owners adapt and improve.

OPTIONAL EXERCISE

Ask for volunteers to read their Executive Summaries in class. Have participants constructively critique the content, paying particular attention to the purpose of the Executive Summary (which is to make the reader or listener want to learn more).

COURSE EVALUATION

Break into small groups (3 to 5) and discuss the following:

1. What did you like most about the class? What did you like least?
3. Which guest speakers were most effective? Least effective?
4. What module would you shorten? Lengthen?
5. What module(s) would you like to see added? Deleted?
6. How could the Instructor improve the class?
7. What was the most important thing you got out of class?

Allow about 10 minutes for discussion and 10 minutes for reporting. Have a spokesperson from each group summarize the group's answers and present them to the whole class. Note that this is a constructive critique segment, so the Instructor should be the one doing the listening and taking notes.

Although there will be a written evaluation of the course, this exercise creates closure for the participants, and fosters continued networking after the class is over.

See Tab C for the **NxLevel® Course Evaluation Form**. We strongly recommend that you have the evaluations completed in class *before* the group disbands!

GRADUATION IDEAS

Formal

Option

Invite the state administrator (or the head of the state Department of Commerce, or any other small-business advocate of importance) to make comments on the importance of programs like this to state economic development. Have that individual hand out graduation certificates, and leave the rest of the time open for food and socializing.

Option

Invite families and friends of the participants, all prior guest speakers, and program administrators to a more formal ceremony (either at another time, or on the evening of the last class). Deliver a brief, positive statement about each participant who comes up to receive a graduation certificate.

Informal

After the course evaluation, have participants draw names. Instruct each participant to keep the name they drew secret, and to think about what they'd like to say to that individual about his or her business endeavor, participation in class, or whatever parting words seem appropriate. Then, break for food for about fifteen minutes.

After the break, each participant presents the graduation certificate to his or her fellow classmate with the parting words they chose.

OVERHEADS AND HANDOUTS AVAILABLE FOR SESSION TWELVE

OHD	12-1	The Basics of Negotiation
OHD	12-2	Traits of Effective Negotiators
OHD	12-3	Negotiation Strategies
OHD	12-4	Stages of Negotiation
OHD	12-5	Overcoming Problems
OHD	12-6	Key Contract Management Tasks
OHD	12-7	Tools for Staying In Touch With Your Customers
OHD	12-8	Reasons to Grow Your Business
OHD	12-9	Pitfalls of Unmanaged Growth
OHD	12-10	Three Ways to Increase Profitability
OHD	12-11	Growth and Maximizing Profits
OHD	12-12	Types of Ratios
OHD	12-13	What To Look For In Accounting Software
OHD	12-14	The Four Phases of Project Management
OHD	12-15	The NxLevel Action Plan
OHD	12-16	Understanding the Supply Chain

SUGGESTED HANDOUTS AND SUPPLEMENTAL MATERIALS FOR SESSION TWELVE



- Articles/books on negotiating techniques
- Articles on project management or project management software
- Articles on companies that are greening their supply chain
- Written course evaluation form
- Graduation Certificates or Certificates of Completion

You have the option of finding these articles/publications for use in class, or asking students to search them out on their own and share what they find with the rest of the class. Keep track of additional materials you choose to use by making notes on the next page.

Supplemental materials used for Session Twelve

Notes

The Basics of Negotiation

- **There would be no negotiation unless both sides expected a benefit**
- **The goal of negotiation is to create a new situation that's better than the old one**
- **Unfair deals last only while one party feels weaker than the other**
- **Win-win negotiation delivers the best, most enduring deals**
- **Like any other skill, negotiation can be learned and practiced**

Traits of Effective Negotiators

Good negotiators:

- **Understand their counterparts' interests and perspectives**
- **Understand the difference between positions and interests**
- **Understand the difference between real power and perceived power**
- **Know their settlement range**
- **Know their BATNA (Best Alternative To a Negotiated Agreement)**
- **Know when to walk away from negotiations**

Negotiation Strategies

Soft Negotiators

- **Avoid conflict at any cost**
- **Usually don't stand up for their best interests**

Hard Negotiators

- **Aggressive and competitive**
- **May use threats of bluffs**
- **Not trusting or trustworthy**

Win-Win Negotiators

- **Work towards the best outcome for all**
- **Flexible, but can be firm when it's appropriate**
- **Attack problems, not people**

Stages of Negotiation

Setting an Agenda

- **Why are you negotiating? What are the issues, and what are the goals?**

Voicing Demands and Offers

- **What are your interests and positions?**
- **What do you want, and what are you willing to give in return?**

Working to Minimize Differences

- **Where do interests overlap?**
- **Where is the common ground?**

Closing the Deal

- **“Win-win” means both sides are better off than when they started.**

Overcoming Problems

- **Recognize manipulative tactics** (e.g., stonewalling, bullying, deception)
- **Open your ears and listen.** Being a careful listener is the best advantage you can have.
- **Get in the other person's shoes.** Understanding your counterpart's point of view will help you find common ground.
- **When things get stressful, slow down and regroup.** Taking time out will clear your head.
- **Don't make important decisions on the spot.** Get off the hot seat, and go to a safe location to consider your options.
- **Know when to walk away.** Knowing your limits ahead of time gives you more control of the situation.

Key Contract Management Tasks

- ☐ **Create processes and practices**
- ☐ **Review timeframe**
- ☐ **Evaluate benchmarks and measures**
- ☐ **Define responsibilities of each partner**
- ☐ **Identify contingency plans**
- ☐ **Establish regular meeting times**
- ☐ **Resolve conflicts and problems**
- ☐ **Review performance and improve where necessary**

Tools for Staying In Touch With Your Partners

- **Personal visits**
- **Newsletter**
- **Toll-free phone line**
- **E-mail**
- **A company blog**
- **Regular mail**
- **Semi-social meetings**
- **Pager**
- **Text messaging**
- **Social networking sites (e.g., Twitter)**
- **Virtual meetings**
- **Video and audio livecasting**
- **Cellphone**
- **Regularly scheduled meetings**

Reasons to Grow Your Business

- **Increasing profits**
- **Taking on new challenges**
- **Gain or maintain market share**
- **Achieving economies of scale**
- **Getting volume discounts on inputs and materials**
- **Enhancing the company's status**
- **Acquiring a more diverse customer base**
- **Targeting new customer segments**
- **Better serve the customer (through new location, broader product lines, lower prices, etc.)**

Pitfalls of Unmanaged Growth

- **Experiencing only limited, short-term growth**
- **Inability to maintain consistent performance standards**
- **Unprofessional behavior**
- **Low employee morale, and high employee turnover**
- **Loss of profitability**
- **Loss of customer loyalty**
- **Diminished quality**
- **Slowdown in business learning and competitiveness**
- **Inability of overworked leadership to provide direction**
- **Cash crunch and bankruptcy**
- **Inefficient use of resources**
- **Stress and burnout**
- **Loss of focus on core objectives**
- **Poor communication among employees**

Three Ways to Increase Your Profitability

- 1. Increase your sales volume**
(without increasing your fixed costs)
- 2. Reduce your fixed costs**
(without causing a decrease in your sales volume)
- 3. Increase your contribution margin by:**
 - **Increasing the sales price**
(without decreasing volume)
 - **Decreasing variable costs**
 - **Changing product mix to those with higher contribution margins**
(without decreasing volume)

Growth and Maximizing Profit

- **Profit growth is the most important metric.**
- **Policies should allocate assets to maximize profit.**
- **Company and product branding is critical to profits.**
- **Customer knowledge and management is the most important focus in a growth company.**
- **Time spent on things that don't maximize profit will slow your growth.**
- **Cost controls are important, but companies cannot save their way to growth.**
- **Growth strategies begin and end with the company's leader.**
- **All employees and stakeholders must pull together to be successful.**
- **Care about and manage people, not data.**
- **To be successful, make others successful!**

Types of Ratios

Liquidity Ratios

Can your business meet its short-term obligations?

Examples

- Quick Ratio
- Current Ratio

Asset Management Ratios

How efficiently does your company handle assets?

Examples

- Inventory Turnover Ratio
- Receivables Turnover Ratio

Profitability Ratios

What is your return on sales and capital?

Examples

- Gross Profit Margin Ratio
- Net Profit Margin Ratio
- Return on Investment Ratio

Capital Structure Ratios

How much does your business owe, and own?

Examples

- Debt to Equity
- Debt to Assets

What to Look For in Accounting Software

Ease of use

- How steep is the learning curve?
- How long will it take you to become proficient?
- How much will training time add to the cost?

Scalability

- What other modules are available?
- Does it integrate seamlessly with other business applications?
- Is it compatible with your accountant's system?
- Will it accommodate growth?
- Will you have to make multiple upgrades as you grow?

Flexibility

- Can the programs be customized to meet your unique needs?

Security

- Is it secure?
- Does it prevent unauthorized access to your data?

Technical Assistance

- Does the program have an adequate help utility, help desk, or community user forum?
- Does the manufacturer offer training?
- Is the manufacturer likely to stay in business?

The Four Phases of Project Management

- **Initiation.** A need or opportunity is identified, a project manager is chosen, a general plan is structured, and team members are chosen.
- **Planning.** Activities and tasks are assigned, money is budgeted, and time is scheduled.
- **Execution.** The work is performed by the team, and guided and monitored by the project manager.
- **Close out.** Deliverables are delivered, accepted, and utilized by the stakeholders. Project reports are prepared in order to measure efficiency and identify areas for improvement.

NxLevel® Action Plan

Project	Team leader / Team	Resources needed	Estimated costs	+ / -	Success indicators	Next steps	Timeline (in weeks)	+ / -

Understanding the Supply Chain

Logistics

- **Processes and activities that enable the transfer of a product or delivery of a service from its origins to its destination.**

Supply Chain

- **Interdependent business processes and activities (“channels”) that extend from sourcing raw materials, to delivering the product to its ultimate destination.**

Channels

- **Business processes and activities extending from one end of the supply chain to the other. (Example: Marketing is a channel within the supply chain.)**

Subchannels

- **Functional areas within channels, which do not extend from one end of the supply chain to the other. (Example: Market research is a subchannel of the marketing channel.)**

additional notes

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