FINANCIAL ANALYSIS

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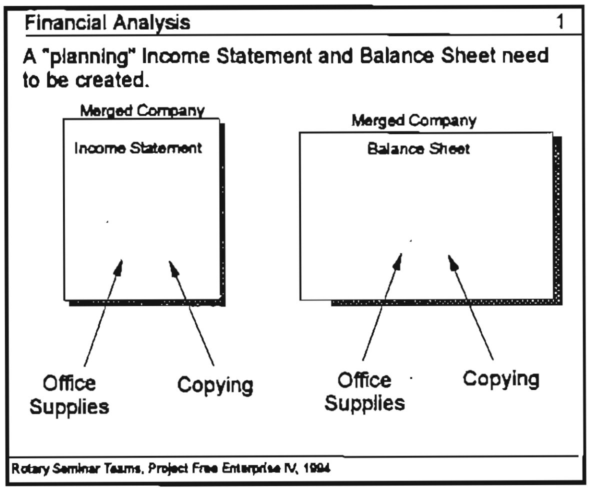
Rotary Seminar Teams, Project Free Enterprise IV, 1994

My name is Michael Bourke. I am a professor at a small private university, called Houston Baptist University, where I teach finance and information systems. I am going to act as a financial consultant on the proposed merger. I am very pleased to be among you today. While I do not have any Polish ancestry, I have had the opportunity to learn Polish and live in Poland, and so I identify strongly with your country and wish you well as you come to grips with western-style economic systems.

Several planning documents need to be developed, in order to evaluate the advantages of the merged company. The first two documents are the Income Statement and the Balance Sheet. The Income Statement measures revenues vs. expenses over a period of time (month, quarter, year). The Balance Sheet measures how the assets and liabilities are distributed relative to each other. The Balance Sheet is a snapshot taken at a point in time. The sources/uses of funds statement shows the sources and uses of the cash flows.



The merger should allow the two companies to increase revenues, reduce expenses, or both. The result on the Balance Sheet might be reduced Plant and Equipment, increased Cash, or reduced Payables and increased Equity.

Each of the companies must be examined for its financial health. But, when you do this, keep in mind that different types of industries have different structures for their Income Statements. A manufacturer has much higher depreciation than a distributor. A consulting firm does not have Cost of Goods Sold - its major expense is Salaries. A manufacturer will have a higher level of inventory than a services company. However, in general, you need to examine the profitability of each company, its debt levels, the strength of its cash flows, and how effectively each uses its money, as expressed in ratio analysis.

Financial Analysis 2

In order to understand the value of the merged company, you must evaluate the financial health of each of the companies.

- Relative profits
- Relative debt
- Relative cash flows

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Each of the companies will have a different Income Statement. The office supply company has higher sales, but its cost of goods is disproportionately higher than that of the Copying company

Financial Analysis 3

Income statement

Office Supplies		Copying	
Sales	300,000	Sales	200,000
Cost of Goods	150,000	Cost of Goods	80,000
Gross Margin	150,000	Gross Margin	120,000
Salaries	60,000	Salaries	60,000
Rental	12,000	Rental	8,000
Depreciation	8,000	Depreciation	12,000
Income before Taxes	70,000	Income before Taxes	40,000
Taxes	22,000	Taxes	12,000
Net Income	48,000	Net Income	28,000

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If you compare the Balance Sheets, you see that The Balance Sheet represents a snapshot of the company, taken at a point in time. You can perform ratio analysis to determine whether the company's structure is out of equilibrium. The category of Cash represents cash and checks. A/R is invoiced sales. Inventory represents the stock of goods available for sale. Questions arise concerning the valuation of Inventory. The category of Plant & Eqpmt represents machines, furniture, and real estate. Over time, Plant & Eqpmt is depreciated, so its amount decreases. Polish realia: few small customers pay with checks and/or credit cards.

Financial Analysis 4

Balance sheet

Current Assets		Current Liabilities	
Cash	10,000	Accts Payable	30,000
Accts Receivable	40,000	Salaries Due	5,000
Inventory	40,000	Note Due	30,000
Plant & Equipment		Equity	
Furniture	20,000	Retained Earnings	50,000
Computer	5,000		
Total Assets	115,000	Total Liab and Equity	115,000

Current Assets		Current Liabilities	
Cash	5,000	Accts Payable	4,000
Accts Receivable	5,000	Salaries Due	5,000
Inventory	40,000		
Plant & Equipment		Equity	
Furniture	10,000	Retained Earnings	69,000
Copiers	28,000		
Total Assets	78,000	Total Liab and Equity	78,000

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Financial Analysis 5

The use of ratios can also help performance analysis

- Profitability ratios
- Liquidity ratios
- Turnover ratios

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Ratio analysis is useful. There are different types Profitability ratios measure the net income in relation to something else - either Sales, Assets, or Equity. Liquidity ratios measure the ability of the company to cover its short-term financial obligations. In the long-run, the company may be viable, but, if it can not pay its bills next week, it may go out of business. Other ratios include activity ratios, such as Inventory Turns. This latter measures how inventory is on hand in relation to yearly sales. The lower the number, the higher your inventory carrying costs - money is tied up in inventory left unsold, and, when other bills arrive, the company may have to make a short-term loan, for which it will pay interest. Another turnover ratio is Days in Accounts Receivable. Accounts Receivable are divided by total yearly sales and this fraction is multiplied by 365. A high number indicates that money is tied up in Account Receivable, so again, when other bills arrive, the company may have to make a short-term loan, for which it will pay interest. It is important to note that it is impossible to evaluate a given company on the basis of a single ratio.

Financial Analysis 6

There are several different types of profitability ratios.

- Return on assets - ROA
- Return on income - ROI
- Return on equity - ROE

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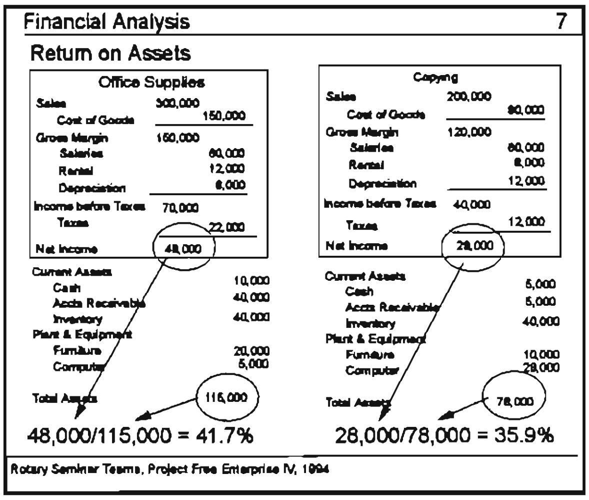
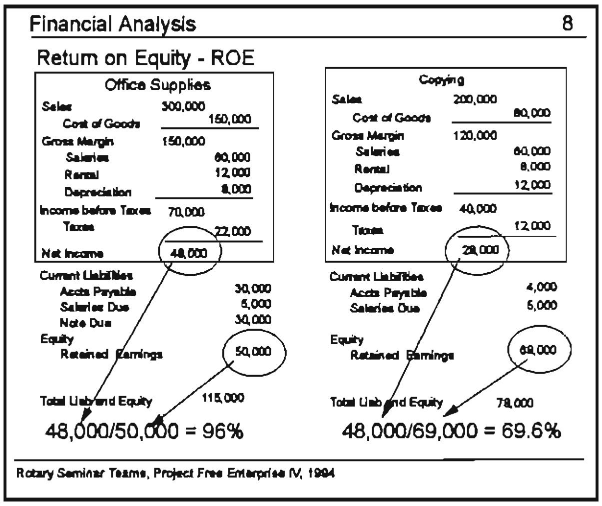
Once again, it is important to point out that different industries have different ratios. Banks, for example, have a very high ROE, but a very low ROA. Every industry has a "best practice," or an ideal ration which companies should strive to achieve. For some industries, Return on Assets is important. For example, a manufacturing firm has much plant and equipment and needs to earn profits to cover these large capital outlays. On the other hand, a consulting firm has few assets, and it would use Return on Equity or Return on Income as an indicator of success.

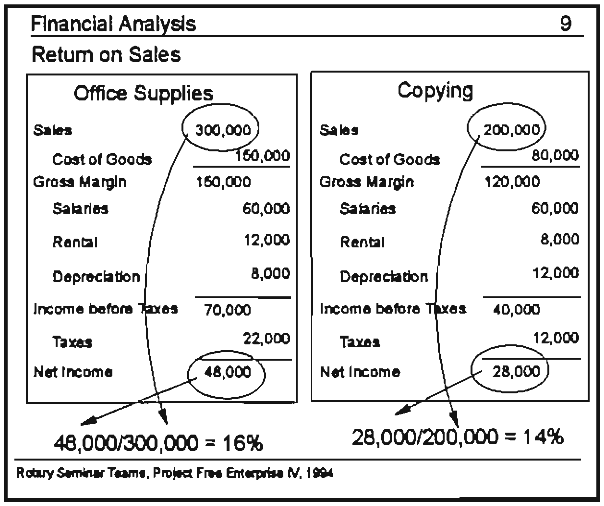
Return on Assets is calculated by taking the Net Income and dividing this number by Total Assets as of the date of the Income Statement. If you find that your ROA is too low, you have an unprofitable company, and you should consider investing your money in the stock market or depositing it in a bank to earn interest, instead of running your own business.



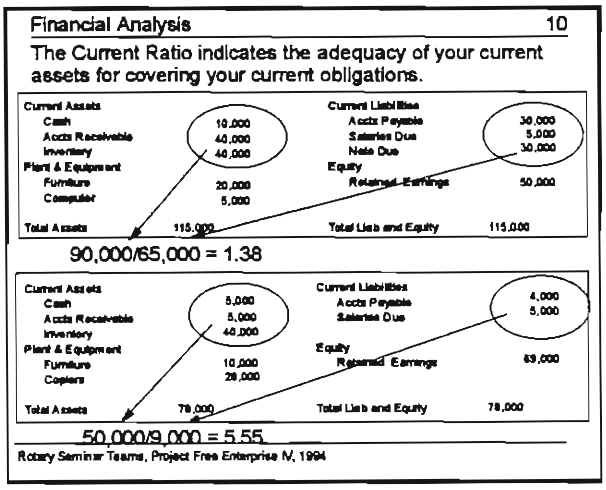
Return on Equity measures the performance of the company with regard to the investment that the owner has made. In some companies the owner has invested less of his own money.



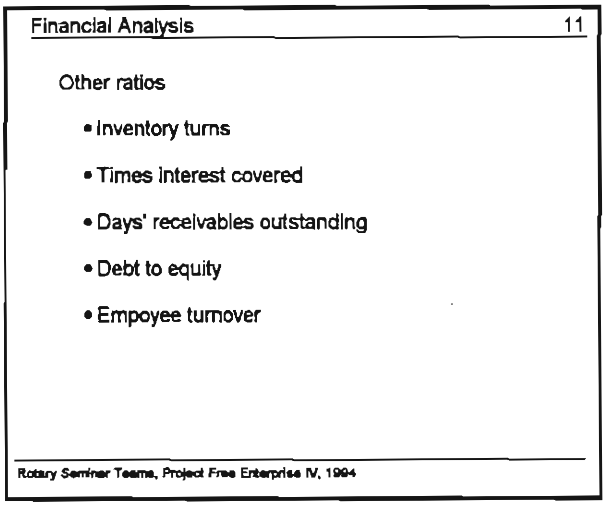
Return on Sales measures the operating effectiveness of the company. Is it able to control its operating expenses? Is it able to generate enough sales business?



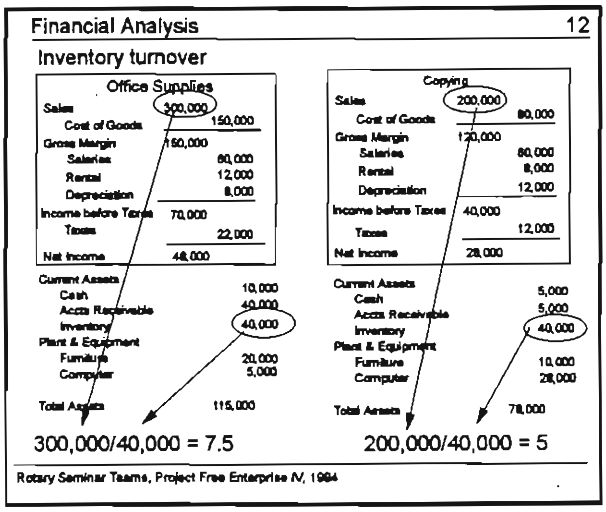
After examining the Income Statement, you turn attention to the Balance Sheet. This type of analysis is called "Ratio Analysis." One of the most important ratios is the Current Ratio, which compares the current assets to the current liabilities. Current assets are either cash or assets that can be converted into cash easily. this ratio measures a company's ability to cover its short term commitments, such as accounts payable, salaries, and short-term loans.



Several other ratios should be considered. Inventory Turns measures how much unsold inventory the company has on hand. This represents uncollected cash that could be used to pay short-term expenses. If this cash is not available, cash may have to be borrowed to pay these expenses. In addition, there is the question of inventory obsolescence.



While the inventory of the Office Supply company is not really comparable to that of the Copying company, one can see that the Copying company has relatively more supplies on hand and is thus less efficient than the Office Supply company.



Days in Receivables measures how effectively the company is collecting its bills from credit customers. If a company is not collecting its bills fast enough it has less money available for paying short-term bills. In addition, the older an account receivable, the less likely it is that you will be able to collect it at all. This ratio is calculated by dividing Inventory by Yearly Sales and multiplying the resulting fraction by 365. This gives the number of days of operation that are in accounts receivable. Obviously, the lower the number of days, the better.

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Days in receivables

Office Supplies

Sales	300,000	
Cost of Goods		160,000
Gross Margin	140,000	
Salaries		60,000
Rental		12,000
Depreciation		8,000
Income before Taxes	70,000	
Taxes		22,000
Net Income	48,000	

Current Assets	
Cash	10,000
Accts Receivable	40,000
Inventory	40,000
Plant & Equipment	
Furniture	20,000
Computer	5,000
Total Assets	115,000

40,000/300,000 x 365 = 48.6

Copying

Sales	200,000	
Cost of Goods		80,000
Gross Margin	120,000	
Salaries		60,000
Rental		8,000
Depreciation		12,000
Income before Taxes	40,000	
Taxes		12,000
Net Income	28,000	

Current Assets	
Cash	5,000
Accts Receivable	5,000
Inventory	40,000
Plant & Equipment	
Furniture	10,000
Copoers	28,000
Total Assets	78,000

5,000/200,000 x 365 = 9.1

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After doing analysis of the separate companies, one needs to prepare the financial statements for the merged company. Obviously, these documents should reflect the synergy obtained from a merger. For example, one might expect that several benefits might result from this proposed merger: 1) Sales will go up; 2) operating expenses will go down; 3) administrative costs will go down; 4) the bigger company will have access to additional sources of capital.

Financial Analysis 14

Proposed Income Statement for merged companies.

No Synergy		Synergy	
Sales	500,000	Sales	600,000
Cost of Goods	230,000	Cost of Goods	220,000
Gross Margin	270,000	Gross Margin	380,000
Salaries	120,000	Salaries	100,000
Rental	20,000	Rental	16,000
Depreciation	20,000	Depreciation	18,000
Income before Taxes	110,000	Income before Taxes	242,000
Taxes	34,000	Taxes	80,000
Net Income	76,000	Net Income	162,000

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In addition to the Income Statement, the Balance Sheet should also show the effects of the synergy from merging. For example, improved use of staff might result in reduction of Accounts Receivable and Inventory and a corresponding increase in Cash.

Financial Analysis 15

Proposed Balance Sheet for merged companies.

No Synergy

Current Assets		Current Liabilities	
Cash	16,000	Accts Payable	34,000
Accts Receivable	45,000	Salaries Due	10,000
Inventory	80,000	Note Due	30,000
Plant & Equipment		Equity	
Furniture	30,000	Retained Earnings	119,000
Computer	5,000		
Copiers	28,000		
Total Assets	193,000	Total Liab and Equity	193,000

Synergy

Current Assets		Current Liabilities	
Cash	35,000	Accts Payable	34,000
Accts Receivable	35,000	Salaries Due	10,000
Inventory	70,000		
Plant & Equipment		Equity	
Furniture	25,000	Retained Earnings	119,000
Computer	5,000		
Copiers	28,000		
Total Assets	193,000	Total Liab and Equity	193,000

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There is one other type of financial analysis that should be performed. This is a capital budget. It shows the profitability of the merger for a period of 5 years. It includes the costs of the merger itself, as well as the change in expenses and the change in income for the merged company. Initially, because of start-up costs and reduced efficiencies from the trauma of combining companies, the income might go down, and the expenses might go up. However, over time, as the merged company learns how to operate more effectively, we can expect this to be reversed. The Capital Budget shows this over time.

Financial Analysis 16

Use a capital budget to support your analysis.

	Year 0	Year 1	Year 1	Year 1	Year 1	Year 1
Merger Expenses						
Legal						
Construction						
Moving						
Change in Operating Exp						
Change in Operating Inc						

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To summarize, be sure to look at the specific structure of each company. Make sure you understand the relative strengths and weaknesses. Understand how the synergies will occur. Build financial documents for the merged company. Support analysis with a capital budget.

Financial Analysis 17

To summarize,

- There must be synergy
- Synergy reflected in financial documents
- No single view or report is sufficient
- User ratio analysis
- Support decision with capital budget

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INTRODUCTION TO AFTERNOON SESSION

Tad Pilinski

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This morning we described a hypothetical business venture which needed a management philosophy, a formal business plan and a marketing and financial plan for operating that business.

This afternoon we are going to cover some other business topics which will not be tied to the context of our hypothetical business. We do not think it is necessary to try and tie these various topics together to make them meaningful. Each one will stand alone, the topics we will cover are:

1. New Business Start-Up considerations
2. Financial Operating Records
3. Management Information Systems and Computers
4. Sales Techniques
5. Formal Business Presentations
6. International Trade and Finance
7. And a brief discussion of TQM - or Total Quality Management and ISO standards

There will also be a work-shop session after the seminar is over today during which you can get with any of the speakers and ask them questions or discuss your business situations.

Our first speaker this afternoon will be Voitech Kic on New Business Startup considerations.

Start-Up Considerations

Wojciech Kic

Proprietor,

Property Management Corporation

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START-UP CONSIDERATIONS

"Some people say a decision has to marinate before you can make it. Sometimes that's true. But you'll never have all the information you need to make a decision. If you did it would be a foregone conclusion, not a decision." (fm. David Mahoney "Confession of a Street-Smart Manager")

Start-up Considerations 1

Getting into your own business.

- Start-up considerations
- Personality assessment
- What business should you choose
- A business plan
- Bootstrap plans
- Chances of success

Starting a business may be the answer for many people who still can not decide if it is the right thing to do, or if they are cut out for it. This uncertainty holds back people who are very capable of being successful in business - but they do not yet realize this fact themselves. Either through lack of experience or lack of courage - this type of individual fails to take action. With some basic knowledge, some thoughtful, reflection and some encouragement - many people have taken these first steps into business only to discover that they can be successful.

Starting a new business is a decision which within itself is the end product of the considerations you have given to the business you want to establish.

Start-up Considerations 2

Start-up considerations.

- Uncertainty of success
- Personal objectives
- Detailed analysis

The success of your enterprise may vary in its financial measurements. A good probability is that the business may actually fail. You may or may not achieve personal objectives you set for yourself. These objectives will very likely include:

* The desire to be your own boss
* The desire to use special skills
* Security
* Keeping busy after retirement
* Making It

Whatever your objective or combination of objectives, one thing is certain: your chances of success will increase dramatically if you engage in somewhat detailed and premeditated analysis of the business you are about to start and your own resources including your single greatest asset: YO U R S E L F

PERSONALITY ASSESSMENT

How about you? Your attendance here and the time you have set aside to be here, despite many other possible activities you could have engaged yourself in today reflects your

ACTION

to gather all possible information about a business before engaging in a business. Being here is more important than anything you may learn here because your presence at this seminar reflects your decision making and the thought process required of anyone that may consider starting a business. While some points we make may be of great value many you may find not to be practical at all. In fact some ideas may be almost contradictory to the very good business practice experienced in local conditions.

> Start-up Considerations 3
>
> Personality assessment.
>
> - Grade yourself
> - Personal traits
> - Analysis of traits

But then sometimes these seminars are about what not to do.

Many times before starting a business you will hear: how about you? Your friends, acquaintances, family, neighbors, ex-or current co-workers may lend you a great deal of encouragement or discouragement.

You will certainly be graded in the following trait categories:

* initiative - Are you resourceful, alert to opportunities?

* attitude toward others - Are you positive, have friendly interest in people, are you polite and tactful?

* leadership - Are you forceful, inspiring or weak?

* responsibility - Do you welcome responsiblity or do you avoid it?

* organization - Are you capable of perceiving and arranging fundamentals in logical manner?

* industry - Are you industrious?

* decision - Are you quick or hesitant?

* sincerity - Are you a squareshooter or not?

* perseverence - Are you discouraged by obstacles?

* physical energy and enthusiasm - Do you have it all the time or only sometimes? Can you be your greatest fun? (kibic)

An ideal candidate for business owner will score high in each category. An examination of your attitudes, even by such an impartial person as yourself, will most likely reveal, however, certain shortcomings.

Yet, the analysis of the traits of successful business owners can be very misleading too. In an attempt to determine a profile of a successful business owner before the start of an enterprise I contacted a score of successful enterpreneurs in Houston area and I asked them to score themselves in terms of successful traits before the business started. The results were very revealing: most owners scored low on all characteristics; some had no idea where they stood. It appears that the outstanding traits are developed in time in tandem with a development of your line of business. Even belief in success, so common among business owners, was extraordinary but only after achievement of measurable success.

WHAT BUSINESS SHOULD YOU CHOOSE?

Before embarking on a voyage you have to define the business you want want to establish. Will you be retailer, wholesaler, service person, an advisor or a consultant.

> Start-up Considerations 4
>
> What business should you choose.
>
> • Manufacturing, distribution, services
>
> • Knowledge of business
>
> • Marketable idea

Know your business!!! Have you worked in a business like the one you want to start? Have you worked for someone else as a foreman or a manager? Have you had any business training in school? Have you done anything in the business you want to begin?

You would be surprised by a number of people who invest in a specific business because they find it nice. (To by bylo fajnie)

You simply must know what you are doing, have a "know-how" which will include the following:

a. Best site for your business.
b. Inventory sources based on price, quality, dependability.
c. Back-up sources.
d. Client sources.

e. Labor market conditions.

Next you may want to define your idea? Is it marketable? Is the field for your business idea growing or shrinking? Do a complete research.

IDEA, HOWEVER, IS NOT ENOUGH. YOU MUST DO SOMETHING ABOUT IT.

A job in a small business reflecting your business predispositions may be an invaluable aid. So may be a good hobby.

A BUSINESS PLAN

A business plan is nothing but a map of your business. It may be intimidating to consider, with a business that is only about to start, without having the first client yet. Why should you go to the trouble of writing a business plan?

Start-up Considerations 5

A business plan.

- Forces objective outlook
- Operating tool
- Communicate ideas

a. The process of putting a business plan together, including the thought you put in before beginning to write it forces you to take an objective, critical, unemotional look at your business project.

b. The business plan is an operating tool which if properly used, will help you manage your business and work effectively toward it's success.

c. The completed business plan communicates your ideas to others and it provides the basis for continuity.

The need for a business plan can not be overemphasized. By taking an objective look at your business you can identify areas of weakness and strength, pinpoint needs you might otherwise overlook, spot opportunities early and begin planning how you can best achieve your business goals. Your business plan also helps you see problems before they grow large and helps you identify their source thus suggesting ways to solve them. Your business plan will even help you avoid some problems altogether.

BOOTSTRAP PLANS

Unless you are independently wealthy we have to examine necessary questions:

a. Where do you get the money?
b. The purpose of money in your enterprise.
c. How much money is enough to start?
d. How does the size of the capital effect our business plan and business considerations?

> Start-up Considerations 6
>
> Bootstrap ventures
>
> - Capital required
> - Sources of funds
> - Start small
> - Forget banks

For one, if anyone received suddenly a million dollars, even if free, but on a condition that it will be spent solely on a business venture we may find ourselves in doubt about what to do with the money. Certainly, we will have to examine our objectives in context of the long picture of our business venture.

Do we want to become rich, moderately wealthy, financially independent? What is our appetite for housing, cars, food. Our personal goals will dictate which business is established. The greater the risk the greater the reward or the chance of failure. How much would you be willing to risk knowing that there won't be a second chance?

Now let's examine a typical example:

You will have personal income requirements; minimum if funds will be needed for rent, utilities and food. Clothing and minimum upkeep must be considered as well which will include doctors,
medicine, magazines and spending money.

Now that you computed your initial capital requirements where will you get the money. Sources are:

a. Personal savings.
b. Relatives and friends.
c. Your job.
d. Working spouse.

You will notice that banks were not mentioned. The reality we face in the United States is that banks are typically not good sources of funds for small business start-ups. The loans are difficult to obtain without collateral or a successful business history. How can you have a successful business history without capital to start is an endless questions just as "What came first: chicken or egg?".

The reality is, however, that the beginnings will be humble. From one client to another until there are enough to maintain a regular business.

How do we start a small business if we must support a family? It can be too radical to open even a well research business idea if it requires such a leap of faith that one must give up their vacation to operate the business full time. This is a common dilemma in the U.S. and there have been a number of ways people have found to get started. These common practices include:

a. Work you business idea from your home.
b. Work on weekends.
c. Have a partner (family) and divide time spent at the actual place of business.
d. Hire an employee and train them.
e. Sell your services or product through mail. This will allow you to keep hours more flexible.
f. Sell your product or service to other businesses or distributors.

If you do have access to private capital, perhaps consider that you may not be gaining what you are looking for in this arrangement. You will simply work for someone else; you are likely to give up rights to business ownership for the capital. Even if you were to receive an unconditional loan the interest of 30% to 40% would force you into a high risk venture.

The purpose of money is thus to maintain yourself and your family and to meet business expenses of obtaining the inventory or the expense of obtaining the first client(s).

Money acts as a leverage to the business. A small amount of capital can propel a business toward great profits. Hence, the tendency to borrow money from the banks. Remember, however, that loans work with a "seesaw" effect. Loans can dramatically increase the returns but they can also wipe out whatever collateral may be behind the loan.

Bankers, like yourself, do not want the risk of losing money they may put up for a business venture. Therefore, the requirements for the loans are high; possibility of return must be nearly certain despite the fate of your business. Thus, forcing a loan on a relative may be a deception you may not well see: their ability to take a loss is nearly none.

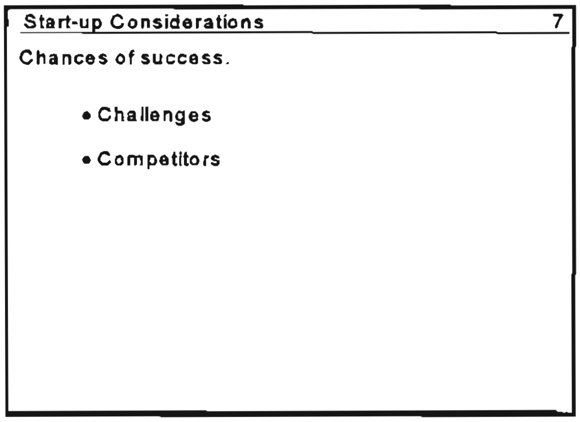
YOU MUST RELY ON YOUR OWN RESOURCES AND ONLY THOSE THAT YOU CAN AFFORD TO LOSE.

How much money is enough? Meet your expenses and the cost to obtain the first order. Not more. Use your creativity to reduce the expenses. Often inventory samples can be obtained free or on a deposit.

The size of your capital is not likely to impact your business plan as heavily as you might think. Low capital forces prudence and awakens and sharpens your survival instincts. With less you have more to lose. Those early survival skills will protect you well in later years.

WHAT ARE THE CHANCES OF SUCCESS?

There are infinite challenges that will be met by a business owner. A successful handling of these challanges will increase the probability of success, however, there is no sure thing.



These challenges include:

a. Study the evolution of your industry. Do not be left out in the changing world. Continue to study your business by becoming involved in industry groups and continued educational courses in local community colleges.

b. Maintain an attitude that brought you here. If you have a get rich quick attitude you are likely to fail even before you start. The only certains are hard work, long hours and continued obstacles.

c. Satisfy customers. Make your clients happy in whatever you do. Just note the most successful businesses: they all provide a good deal of good feelings to their customers.

Remember who pays your bills. You are in the business to please.

d. Be a good competitor. You will never succeed by trying to derail your competitors. A business can only grow and foster in a competitive environment. If you stand alone, without competitors, your business and your entire industry is likely on the way out or extinction.

The market will alone decide how many competitors there will be. The more the better. Attempts to monopolize an industry only point out the narrow mindedness of its owners as these practices must invariably result in small profits and obvious consequences of ignorance of the path of progress.

e. Pay your taxes. Be a good citizen. PAY YOUR TAXES.

"If there is one secret to survival - note that I'm saying survival not success - in business, it is tenacity. If you have some minimal talent, bathe with regularity and aren't certifiably insane, you can survive in any field, if you simply are determined to hold on. I was astonished to discover in the theater that although some talent was necessary, the fellow who lived, slept and ate the theater, wanting to be part of it, above all else, might not become a star, but was certain to endure." (fm. Charles Peters, "Tilting at Windmills)

FINANCIAL OPERATING RECORDS

Marla K. Burns, CPA

Rotary Seminar Teams, Project Free Enterprise IV, 1994

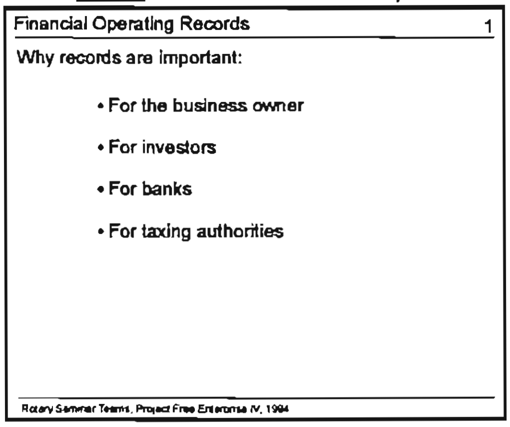
Good Afternoon!! So, how are you?

After five hours of presentations and discussions, you feel by now totally educated, although, I hope, not totally bored with it. Unfortunately my next subject is not super interesting, as I will be talking about paperwork. It is hard to get excited about paperwork, but being (or expecting to be) business owners, we just have to do it.

Before I go any further with my presentation I would like to make you aware of the fact, that I will talk about financial records maintained in american businesses. I realize that requirements of polish government bodies may be different. I even have some of the forms you need to file with local and central governments right here with me, and YES! - they are different from what we have to do in the States.

Some of the forms we are using in the everyday operations may be useful for you and probably easily adaptable. So even though I know about differences, I will go ahead with my presentation. Let's re-title it to "FINANCIAL OPERATING RECORDS AMERICAN WAY".

My first part, however, applies to polish reality just as much as to the american reality. (point to the slide) why records are important? <u>YOU</u> are the most important reason to maintain accurate, current records. Don't YOU want to know where you and your business are? How much money are you making and from where? How much money are you spending and on what? Is your business profitable? Which clients and products bring you money, and on which you are loosing it?



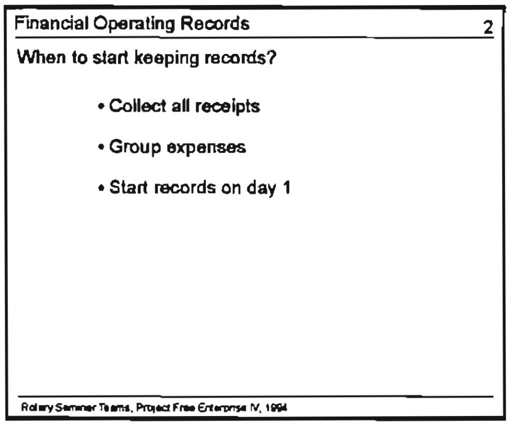
If you are a "single person operation" you may believe that you know it all without writing it down. Unfortunately, it is not so. You may know it today, but a week or month from now you'll get so busy with everyday operations that there is no way you can remember specific numbers. Believe me, I know it from my own experience.

If you have employees, especially in the bookkeeping functions, maintaining financial records is an absolute must. I trust all my employees, but I like to have a way to check on them every once in a while. Don't you?

The next important reasons for operating records (point to the slide) are your banks and possible investors. It does not mean that you have to have investors in most common meaning of this word. But every manufacturer that let you keep his product in inventory, every supplier that extend 30 days credit, is your investor. They either let you use their product (inventory) or their money ("due in 30 days"). And that means they invest their interest in you. Before they do so, they may ask you to provide some information about your business. This information would come from your financial operating records.

The same goes for banks, although with these institutions, financial operating records are just a small part of required paperwork.

And last, but definitively not least, come (point to the slide) taxing authorities. Sometimes you wish you would not have your financial records for them, but I do not advise you not share it with them. Neither maintain two sets of books! It happens sometimes... I have been involved in some nasty audits, because an ex-employee shared the information with taxing authorities. My philosophy is that taxes are unavoidable, and I rather prefer to have money and pay taxes, than... the alternative is not really interesting.



Next question is (point to the slide) when to start the records? It's simple. Right away. It does not have to be elaborate bookkeeping file from the first day in business. But even before you are in business, you may have business expenses. All the paper you wrote notes for future business plan - it's "office supplies". Same with a pen you bought to write it down. Meeting with your inancial and legal consultants; gas you used to drive around and look for the good location; train or bus tickets you purchased to go and investigate the possibility of stocking some inventory; and so on, and so on. If you don't start a business, you cannot deduct it. But if you do, every receipt, every proof of purchase becomes very important.

So, get yourself a folder, or a box, and collect all the pieces of paper. You don't have to organize them right away (unless you are one of this neat, organize individuals that can't stand mess). If you do start business, assign a person or yourself to organize your papers fairly quickly. They have tendency to grow on you, and before you know, a small box becomes a big one.

While organizing, group receipts by type of expense and total in groups. Once you start your business books, it is much easier to record expenses by groups, rather then each individual receipt.

This last (point to the slide) advise to start records on day 1 is more of a wishful thinking of accountants, than reality of life. If you have time and can afford to maintain proper records from day one - it is great! But my experience in dealing with small business owners shows that they are so busy developing their businesses and working to make money, that they don't have time left to count money. Just make sure not to get too far behind.

> Financial Operating Records 3
>
> How to keep records.
>
> - Pre-printed forms
> - Taxing authorities requirements
> - Customized records for your type of business
>   - From associates
>   - Competition
>   - Accountants
>
> Rotary Seminar Teams, Project Free Enterprise IV, 1994

How to keep the records (point to the slide). There are some pre-printed forms that you can purchase in office supplies store. They are standardized for majority of businesses, and they provide you with some suggestions on what information you need to keep. Columnar paper is the simples and easiest type of records to use.

The other excellent although unpleasant source of business forms are your taxing authorities. If you look at the form you are requested to fill out at the end of each month, quarter, or year, it will tell you what type of information you definitively need to keep. Not mention the necessity to keep the money for them...

Then, (point to the slide) customized records for the type of business you are in. Lots of business owners have friends in the same type of business, or quit their employer to start a business on their own. I am not talking about taking the clients from your employer - that's entirely unfair practice, and I would advise these individuals to put themselves in the position of an employer. But there is nothing wrong with using the same forms.

The other source of forms is your competition - go there and either buy something, ask for an offer, or just tell them what you are coming for. I assure you that the next competitor to develop similar business to yours will do just that to you. Not sharing the forms will not stop your potential competitor from opening a business.

And, of course, (point to the slide) the best source of forms are accountants and business consultants. They would charge you for their time, but they would also explain to you how to properly use the forms, what is really important, and what you may omit.

OK. Now that we are all absolutely convinced how important are business records, and how simple it is to get started, let's talk about them.

Financial Operating Records 4

Daily records.

- Invoice register
- Check register
- Payroll data
- Cash in bank

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Daily records (point to the slide). Invoice register is just a list of all bills you give to your clients to receive their payment. If you provide more than one type of product or service, and you wish to know how much income each group brings, you should have more than one column for amounts. Classify your invoices as you post them, and total it by type.

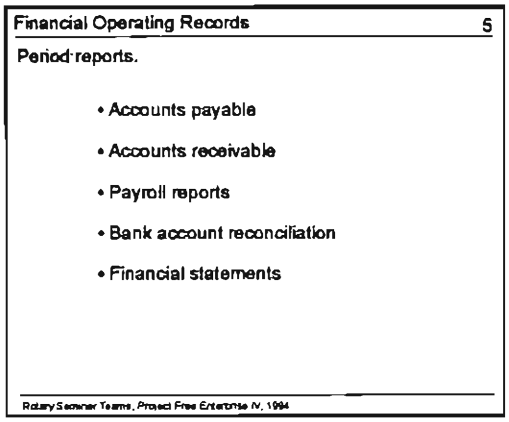
The invoices may be very sophisticated, or very simple. It depends on the size of the purchase, and the type of the business you are in. I know that in Poland all your invoices have to be pre-numbered. We don't have this requirement in the States (YET! - but let's keep Democrats in Washington a little longer, and we'll get it!).

The polish government made it easier on you. Not only you have to have it pre-numbered, but also with copies. Your invoice register will list them all, with the dates, clients names and amount of purchase. If you have VAT requirement, and most of you do, you will have a column showing the taxable amount and VAT. Then, you total it. Either daily, if you have lots of operations, weekly, or monthly.

Next, check register. It is just like the invoice register, only it lists all the checks you have written for business (and sometimes personal) purchases. Again, it is important for you to know how much money you are spending and on what. Create several columns for different groups of expenses and post amounts in proper group. Total them by groups either daily, weekly, or monthly, depending on the size of your operation.

Payroll data (point to the slide). You need to know how much you are paying your employees for three reasons: you, them, and ZUS (polish SS Administration). I am not sure if you already have income taxes withdrawn from employees checks. We do. And then, you need to pay unemployment taxes. We pay to the state and separately to the federal government. Not that we like it, but... Nobody wants to overpaid it, and the only way to calculate it right, it is to have good daily records.

Finally, cash in the bank (point to the slide). For me, it is the most important information in the daily records. I don't want to be surprised like this: "how come my account is overdrawn? I still have some checks in my checkbook..." So, maintain your daily balance, write in deposits and withdrawals. It will also protect your good credit rating. Even if you have on open credit line establish in your bank, which is rather unusual for new businesses, you need to know how much of bank money you used. You need to repay it one day.



Your daily records will provide data for (point to the slide) your "period reports". How often the period reports should be prepared depends again on the size of your operation. If you start it small, you should prepare period reports quarterly. Some new business people wait until the end of the year, but I would not advise you to do so. You may be heading for a major surprise when it comes to payment of your taxes.

As your company grows, you should start preparing period reports monthly. I understand that those of you who are subject to VAT need to pay it monthly, so again your taxing authorities solve this problem for you. We don't have VAT in the United States (YET! see my comment above...)

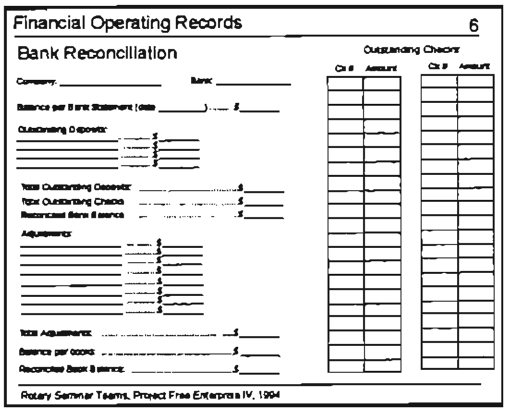
What period reports you should prepare? My list (point to the slide) includes accounts payable and accounts receivable, bank accounts reconciliation and payroll reports, and financial statements.

Accounts payable and receivable is nothing else than a list of unpaid bills and invoices at the end of the period. It gives you the information how much money you may expect (your invoices issued to clients and still unpaid), and how much do you have to pay for product or services already delivered to you. It is wise to prepare lists like that, and have it "aged" - which means group by the "due dates". Aging will indicate not only how much is there, but also when it is due. And that goes for both sides - money in (accounts receivable), and money out (accounts payable).

Payroll reports are basically reports that a business owner needs to prepare for taxing authorities. You have some forms to fill out, and the data for these reports would come from your daily records. Since your forms are different from ours I will not get into details of it.

Reconciliation of bank accounts (point to the slide) is a comparison of data - yours with banks. I realize that banks should be extremely trustworthy institutions, but it happens that they actually make mistakes. I don't mind it much as long as they add somebody's else money to my account. But it also happens that they post somebody's else checks and pay them from my money. Well, I like to know about that, wouldn't you? So, reconcile your bank account at least quarterly, if not monthly.

My next slide shows two forms we are using in my firm. This part (point to the right side of the slide) is a list of outstanding checks at the end of the period. "Outstanding" means checks that you wrote and gave to suppliers and others, but the bank did not receive them yet. Your balance would include these checks, bank balance would not.



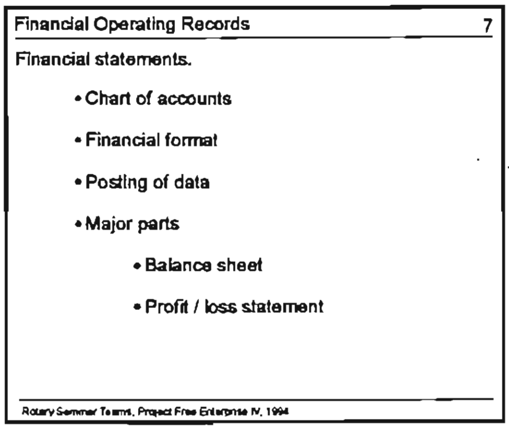
You enter the total of these outstanding checks right here on this line (point to the slide). Then, you enter a balance per bank statement, and a balance from your records. Here (point to the slide) you list outstanding deposits - again, that means deposits that you show as deposited, but bank does not. This occurs at the end of the month. In the States all deposits made after 2:00 PM are posted by banks to the next day. You may post it the same day. That would create an "outstanding deposit".

Once you have all these numbers posted, you compare "reconciled bank balance" with a "book balance". If it is same amount - great! But very often it is not, and you have to find why. If you thoroughly compared checks and deposits, if you recorded bank charges in your records, bank statement will show you where the difference is coming from. Then you either adjust your records if the bank is right, or you go to the bank and ask them for explanation.

Are we having fun yet? I actually enjoy, or at least don't mind, preparing bank account reconciliation. Especially when there is a problem. Finding it brings some excitement to a dull accountant life...

Now comes a big one

FINANCIAL STATEMENT. Telling you how to prepare it, is like giving a full year accounting course in one day. I have to take short cuts, and if not everything is fully clear to you, but you feel it is really important, please ask me questions after the presentation.



Preparation of the financial statement starts with a chart of accounts. It sounds important, but it is just a list of accounts you like to have information on, grouped by types.

There are five major types of accounts: assets, liability and equity, income, costs of sales, and operating expenses. What accounts you like to have in each of the groups depends on how big is your business. You don't need to decide on it right away. Your chart of accounts changes as your business and your requirement for information changes.

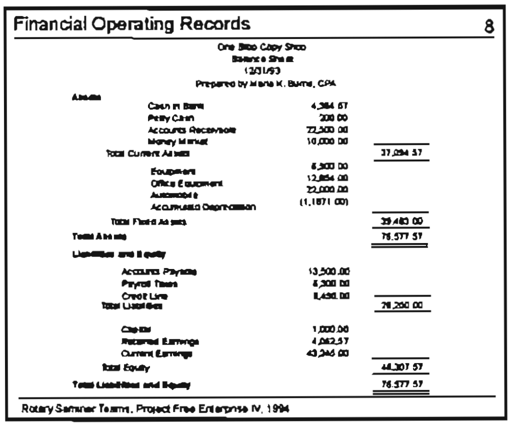
There are some accounts that everybody obviously should have, like "cash in the bank" and "owner's capital", or "sales" and "costs of sales". Other accounts depends on you and your business.

"Financial format" (point to the slide) means format in which accounts you choose are presented. They have to be listed and totaled to provide an information you want to have. The order of accounts and totals is what we call "financial format".

You prepare your financial statement using the data that comes from your daily and period reports. You use totals of columns from your invoice register, check register, accounts payable, accounts receivable, and payroll reports. All these data is organized in two major parts of financial statement: (point to the slide)

- Balance sheet, and
- Profit / loss statement.

There is an example of a simple financial statement. Let's look through its parts.



Balance Sheet" shows the standing of your company AS OF certain day. It is really important to understand this concept. The numbers here do not represent activities achieved during the period, but the final results at the end of the period. In another word it tells you **how much of what you have on this date.**

Financial Operating Records 9

Balance sheet.

"As of" concept

1. Assets
   - Cash
   - Other current assets
   - Fixed assets
2. Liabilities
   - Current
   - Short-term
   - Long-term
3. Equity
   - Capital
   - Retained earnings
   - Current profit

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What are important balance sheet accounts? First come ASSETS - which means what you HAVE. We divide them in several groups. For the small company, the important ones are CASH - in the bank, and petty cash; OTHER CURRENT are your assets that you have in other than cash form. The total of your accounts receivable register comes here - what other people owe you is your asset. Same with deposits you gave, if refundable (ex. deposit to a local phone company). If you are holding any stocks, or bonds - these are also your current assets. Inventory that you have in your warehouses, and work in process are also classified to this group.

Fixed assets are the goods your business owns and you will use for more than one year. Land, buildings, machinery and equipment, furniture, fixtures, autos, leasehold improvements - all these are listed here at their purchase price. You "expense" part of these assets every period, and that's called "depreciation". Accumulated depreciation is the total of expensed depreciation from the time you purchased your asset. Of course, it should never be more than the total of your fixed assets.

Next major group of balance sheet accounts are LIABILITIES, which means what you OWE. Current liabilities are your bills that you have to pay shortly. Total of your accounts payable register comes here. Also, your sales tax (or VAT) payable, payroll tax payable, and other bills that you are expected to pay soon.

"Short term liabilities" are your loans that you have to pay back in less than one year. If you have established a "credit line" in your bank, the balance of it at the end of the period should be shown here. A loan from your friend you promised to repay in couple of months should be shown here, too.

"Long term liabilities" are loans from the banks, other financial institutions and / or individuals that you have to repay in more than one year. As you make payments you apply principal payment to this account to decrease its balance. Make sure not to apply the interest part of payment - this does not decrease your loan balance.

The third part of balance sheet is EQUITY. It is your business NET WORTH, which means the difference between what you HAVE, and what you OWE. Yes, it may happen that you owe more than you have, and your net worth is negative. I hope this does not happen to you.

This equation ASSETS = LIABILITIES + EQUITY is the most important equation of accounting. If it does not equal, we are in trouble!

What are the accounts we classify as "Equity"? First come "capital" which is the very first $1000 you put in a bank to open your business account. "Retained earnings" means accumulated earnings (or losses) from previous years. And "Current profit" is pretty much self explanatory; it is the difference between your income and expenses from the beginning of your accounting period to date.

The "Current profit" number comes from the second part of the financial statement - the PROFIT AND LOSS STATEMENT (frequently called P&L). Remember what I told you about "AS OF" concept for balance sheet? This DOES NOT APPLY to profit and loss statement. This part shows activities achieved DURING the covered period. It should state right on the top: "for X months of operations". One column shows activities during the last period (either month or quarter), the other shows "accumulated" activities totals from the beginning of your accounting period (usually one year).

Financial Operating Records 10

Profit / loss statement.

"For a period"

- Income / sales
- Cost of goods sold
- Gross margin
- Operating expenses
- Profit / loss for a period
- Provision for taxes

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First part of P&L should include sales. If you have miscellaneous types of sales and you like to keep track of these, you should make a separate account for each type, assign separate column in your "invoice register", and enter here separate totals. The returned items and credits issued to your clients should also be shown here.

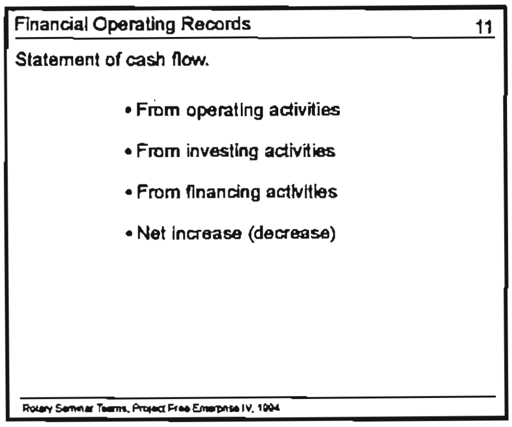
Next comes "Cost of goods sold". These are bills you paid to purchase merchandise you used to prepare your products. Let's say that you are selling toys. The wood, plastics, glue, paints etc. you bought to make toys are "costs of goods sold". Also the wages you paid to any employee that works to actually make your toys is classified in this group of expenses.

After you add all sales and subtract from it total of costs of goods sold, you arrive at a number called "gross margin". It is how much money you have left to cover your operating expenses. This number varies depending on what type of business you are in. You may calculate the percentage of gross margin in total sales and compare with other companies in the same type of business to see how well you are doing..

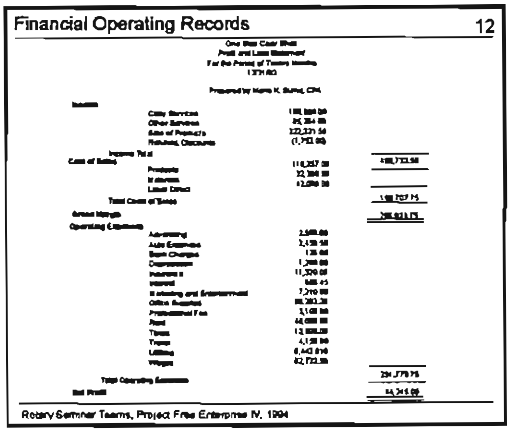
"Operating expenses" are all your other expenses that are not directly related to making your product. Advertising, office supplies, utilities, phones, wages to your administrative and sales employees, interest you paid on the loans - all these and more are your operating expenses. How you call them, how detailed you wish to keep it depends on you, as well as on the type and size of your business.

When you subtract the total of your operating expenses from the gross margin, you have the so called "bottom line" for the period, which is hopefully profit. This is how much you are left with after paying all your bills. And since you started this business to make money, it's better if it is a profit! In which case we should have "provision for taxes" you will be expected to pay.

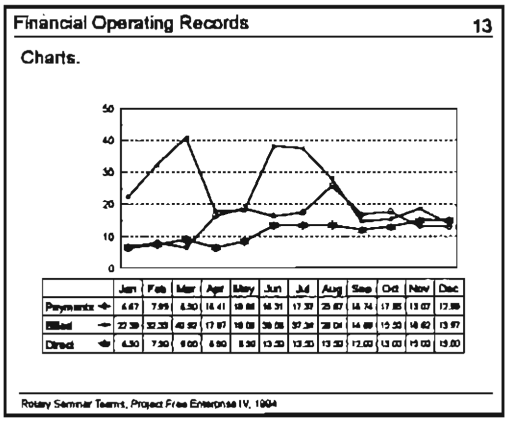
And this is it! Now you know everything about the financial statement.... Let me just mention one more financial document, called Slide No 12. the STATEMENT OF CASH FLOW. It basically shows where the cash comes from, and how it is being used. The bottom line of this report will tell you if your business has a net increase or decrease of cash during a period.



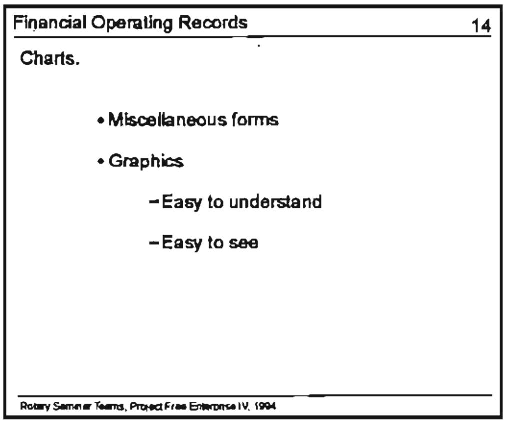
Here is an example of this report prepared for one of my clients. This is not a report that should be routinely prepared for every small business, therefore I will not spend any more time on it.



Sometimes you may find that presenting your reports in graphic form is much easier to understand and more appealing. Here is a linear chart I prepared for another one of my clients. It shows how much was billed, received in form of payments, and it is compared to direct costs. These are monthly results for twelve months of 1993 and four first months of 1994. It shows very well the fluctuation of monthly results.



The charts may be prepared in different forms, depending on data you want to present and the goal you want to achieve. The form may vary, but graphics are always easier to see and to understand.



That's all, folks!

Wow, are we educated or what! Now I let Wojtek Kic to talk about sales techniques. If you have any questions about Financial Operating records, I will gladly take them during the break.

Sales

Wojciech Kic

Proprietor,

Property Management Corporation

Rotary Seminar Teams, Project Free Enterprise IV, 1994

SALES

Sales 1

Successful selling.

- Professionalism
- Traits of successful salespeople
- Psychology of sales
- Negotiation and closing
- "Do's" and "don'ts" in selling
- Follow up
- Prospecting
- Sales policy manual

Sales 2

Professionalism.

- Both art and science
- "80-20" rule

Selling is both a science and an art. Whether you will be your own sales manager or will hire someone to be responsible for sales, there are time proven concepts which are critical to successful selling.

The 80-20 RULE

Sales success is consistent with an 80-20 rule: "80% percent of sales are made by 20% percent of the salespeople. What separates the low performer from the high performer is professionalism. Professionalism means to maintain high standards of conduct, to have excellent knowledge of one's product or service, and to present the product or service in a skillful manner.

TRAITS OF SUCCESSFUL SALESPEOPLE

Sales 3

Traits of successful salespeople.

• Motivated	• Good product knowledge
• Goal oriented	• Prepared sales force
• Good self image	• Ask for the sale
• Confident	• Keep commitments
• Ethical	• Orderly records
• Persistent	• Existing customers
• No fear of rejection	• Constant prospecting
• 80-20 rule	

Some traits of successful salespeople are:

* Highly motivated

* Goal and achievement oriented

* Good self image (clean and neat appearance)

* Confident, enthusiastic and pleasant personality

* Ethical and inspire trust

* Persistent without being pushy and obnoxious

* No fear of rejection

* Good product knowledge

* Orderly and prepared sales approach

* Good response to questions

* Understanding of when and how to ask for a sale

* Follow through and keep commitments

* Maintain orderly records

* Stay in touch with existing customers

* Constantly prospect for new sales

The truly professional salesperson is neither pushy or deceitful. He simply identifies people who have a need for his product or service and then skillfully shows them why they should buy the product.

WHY PEOPLE BUY -- THE PSYCHOLOGY OF SALES

> Sales 4
>
> Psychology of sales.
>
> • Products vs benefits
>
> • Need analysis
>
> • Product desire
>
> • Keep sale process simple
>
> • Orderly sales presentation
>
> • Stress positive features of item or service

People buy for their own reasons not your reasons. The basic rule for selling is that people do not buy products; they buy intengible benefits of those products. In other words, it is not only the physical item that is important, it is their need for the intangible benefits of the item. Along with the tangible or intangible benefit of the purchased item, however, we must include SATISFACTION WITH PURCHASE OF A PRODUCT, AND PARTICIPATION IN THE PROCESS OF PURCHASE. To ensure a successful closing it is important to recognize when the purchasing process begins, and how and when it ends. For that reason we must portray ourselves and our salespeople, not only as salespersons but also as sales facilitators, or to use an often Polish term "expedient". In other words we are not truly salespeople because as such we can not sell anything a person does not want to buy. I can't make you buy an item you do not want to buy, I can, however, invite you, to make a purchase thru identification of a need my product can satisfy.

Professional selling begins with a "need analysis" to find out if the prospect has a need which your product or service can satisfy.

We must identify the needs by creating desire for a product or service. Sometimes the desire for a product or service may already exist, but we must recognize the signs of developing need for the product:

A. A person wanting to see your product at a counter or to contact you by phone in response to your ad expresses desire. This is the beginning of the process of any successful sale; It is also the step, however, where most mistakes in the sale process are made. These mistakes, include a negative pre-judgement of a customer (for example: he looks to poor to afford it, he really does not need it, or simply as may happen from time to time "nie ma"). "Nie ma" is an important clue; the market has identified you as a provider of a product yet you are failing to fill that need. A salesperson must always make the assumption that while an item or ability to buy a desired item may not be present at the moment, the ability to buy an item on the part of the buyer may come later; the problems of finances may be resolved thru a new job opportunity, a bonus or a birthday gift. The buyers, as noted earlier, however, do not only buy a product but also the intangible benefit of the product as well. Participation in the purchase process, beginning with the window shopping without actual purchase, reveals to the buyer his or her standing in the marketplace, or place in society as one may say. It is thru the process of buying and selling that we identify our perceived place in the society and salespeople or sales facilitators more than anyone else establish such rankings. It is, therefore, most important to recognize that a salesperson, in Poland or anywhere, is always in the position of scorn for wrongly placing the buyer at the end of the line. Successful salespersons identified this secret, many centuries ago, and knew that they must treat every client as the most important person in the world. These buyers will come back to buy another product or service many times. The intangible need of the product is good service along with a pat on the back that says: "You are always first with me". Because, for the salesperson without buyers, there are no sales; our life does depend on buyers.

B. In order to facilitate the sale, the process of a sale must be made as simple as possible. For the customers attracted to your business, thru an ad, explanation of simple directions to the place of business is the start. We always explain directions thru points of common reference and explain turns in terms of left and right. We do not jeopardize the sale by referencing to incompatible businesses. Sometimes we may refer to historical monuments or government offices as our neighbors; such references again may backfire unless our business is truly compatible with the point of reference.

C. When meeting a client, a product or service must be presented in an orderly fashion. Depending on your line of business, it may be important to determine how many different products or services you want to present by keeping in mind not to create too much confusion. Here, ideally before showing the product or describing a service, depending on the product or service we have, it is important to tactfully identify and qualify our prospect. To qualify a prospect we must determine their needs for the product and their ability to purchase the product; and most importantly we must know whether they have authority to purchase the product.

It can be very frustrating to complete an hour long presentation only to learn that the real decision maker was not present. Some prospects try to overcome these objections from skillful salespeople, by saying or implying that the other party's approval always follows a recommendation from the prospector. However, keep in mind, that in such cases the prospector would have the final purchasing authority but is no longer interested. This is the time to abandon negotiations and pursue other prospects.

D. We stress what is positive about an item or service; but we have to be honest. Deflecting the shortcomings of a product thru physical actions or improper comments and guarantees may earn you a sale, but it will also bring you scorn from an unhappy client who will not come back for a repeated purchase, and will likely tell others of your dishonesty thus creating and circulating a reputation which will keep other customers away.

Remember, objections to a product or service signal decision making in progress. At that point acknowledge objections if reasonable and point out any erroneous assumptions, don't push. If you are selling a home and there is a railroad behind it, do not tell anyone that the rail traffic is only occasional; or stand in the window and pretend that the rail track does not even exist.

NEGOTIATIONS AND CLOSING

A long time ago, when I was still a child I read a book about a dealer of impressionists' paintings. The man had a shop where he regularly displayed works of art and offered them for sale. Often he bargained with his buyers over the prices displayed. Once the buyer would indicate his approval, he would sit down at this desk to fill out the receipt. He would do it silently, without comments,

Sales 5

Negotiations and closing.

- Seller "buying" item back
- Maintain control
- No magic step

hand the receipt and say, "It will be $500.00." If the prospective buyer said "oh, I'm sorry, how about $450.00", he would reply: "I'm sorry, I already lowered the price too much. I have to ask for $600.00". The startled buyer would quickly hand over $500.00 and leave the store. The dealer here, observed a significant principle in sales; once the terms are agreed upon, any additional comments designed to reassure the buyer of a wise decision may backfire and result in the seller "buying" the item back. His decision to go up on the price convinced the retreating buyer to complete the transaction.

Maintaining control over your prospect thru the conclusion of the sales process is not only the key to a closing, but also to a good relationship throughout repeated transactions.

There is no magic way to handle the final step in the process. If the preliminaries were handled courteously it should be as easy as: should we sign the contract in my office? Often, the prospect will tell US "I think I want to take it home". Once this agreement is made, nothing is said until the money changes hands.

Experienced salespeople are very skillful in creating an impression of a loss not a gain. Celebrate the sale after the closing hours not a minute before.

Abraham Lincoln once said: "The hen is the smartest of all animal creations - it cackles after it lays an egg."

OTHER DO'S & DONT'S IN SALES PRESENTATION

A. Unless you are asked for the price of an item, do not discuss the price until you have completed your presentation. Bear in mind, however, that it is the price of a product/service that is the key to everything. The fact is that the buyer already has an expectation of the price range for your product/service, and if anything, YOU ARE ONLY ALLOWED TO PRESENT YOUR GOODS/SERVICES TO CONFIRM TO THE BUYER WHAT HE ALREADY KNOWS ABOUT YOU AND THE PRODUCT. There are no particular revelations to the buyer during the product presentation, if the item presented is of unknown quality, the buyer is not prepared for the YES decision, yet, regardless of your efforts and the price of the product.

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"Do's" and "don'ts" in selling.

- Presentation before price
- Don't argue
- No personal opinions
- Don't make promises you can't keep
- No false product claims
- Don't degrade competition

B. Don't disagree or argue with the customer. The customer is always right, You say, even if you know he is wrong about something. Remember this: he is right about where he is going to spend his money.

C. Don't express opinions of personal nature, or with regard to religion, politics, or anything that is not relevant to the sale. Again, if the customer is always right, you are likely to be wrong.

D. Don't make promises you can't keep. Clients don't mind, for example, future delivery of a product as long as it is DELIVERED ON TIME. Promising early delivery and delivering late, even if only a little, causes more dissatisfaction for the buyer than anything. Remember: MEET THE EXPECTATIONS. Always early never late.

E. Don't say that your product will d something that it does not.

F. Don't insult or degrade your competition. By praising the competition you are likely to stand above and be compared in terms of praises. When degrading, YOU will be graded in terms of insults.

FOLLOW-UP

After the sale do not forget about your customer. Even if your company has another person who is responsible for providing service you should maintain conatct. Write personal note of thanks. Call to see if he/she is satisfied with the product. Make sure you have done everything that you committed to do. Lack of concern for old clients, in pursuit of new clients, leads to fewer clients.

Sales 7

Follow-up.

- Maintain customer contact
- Handling mistakes and problems
- Beware: personal relationships

Mistakes and problems will occur with any product or service. To handle such situations well, it is best to identify the cause of any such product/service failure and openly discuss them with a buyer. The buyer expects problems, but remember he also expects solutions. An experienced salesperson will guide the buyer thru solutions as well; it is the handling of problems and solutions that earns the seller the greatest respect.

Remember that a satisfied customer is the best source of referrals. Even though we never become friends with our customers we always remain friendly. Intimacy breeds contempt, the relationship we develop is of mutual respect and recognition if mutual needs.

Often, we are drawn to develop personal relationships with the clients thru a promise of future business. The fallacy is obvious; while a weak buyer may actually pursue such a relationship, the only goal of a buyer is to improve their standing in negotiations with you. If anything, such initiations are only signals of the end of all future purchases, at least, on terms favorable to the SELLER.

PROSPECTING

Prospecting is the process of identifying potential customers or prospects. A prospect becomes a customer at the time of purchase not before. Top salespeople spend most of their time prospecting. You know that your product may help the prospect but he does not know it.

Sales 8

Prospecting.

- Identifying potential customers
- Classify prospects
- Knowledge about prospects
- Increase product knowledge

Learn to classify prospects by their potential to add to your sales volume. This potential consists of both the total amount of purchases they may make and the probability that they may make those purchases. Ask yourself several questions:

- Who exactly is my customer? - man, woman, age, marital status, profession, income range, type of business, neighborhood.

- Who buys my product or service right now?

- Who may buy it in the future? - any missing category from above.

- Who bought it in the past? - If there is a change from the past why?

- Why do they buy it? - prestige, professional reasons.

- What advantage do I have over my competition? - price, location, friendlier service. Be honest with yourself, many differences between business are more apparent than real; often a slight change in operating procedures may catapult your competitor over you. Invite comments from customers about yourbusiness and SHOP YOUR COMPETITOR.

IMPROVE YOURSELF

Here are some key points in developing your selling skills:

a. Increase your product knowledge; read any literature about your product, sharpen your skills to pick any daily news from papers and television about any new trends in your industry and what they may mean. You will quickly become an expert. The world does not hide from you; you may hide from the world.

b. Become a relentless prospector: don't take rejection personally, your prospect may simply not be ready for you.

c. Practice your presentations; literally practice in front of a blank wall. Sounds silly but it works. If you do have access to a video camera, tape your presentations and see yourself as others see you.

d. Improve your closing skills. Find out what works best for you: it may be appearance, good breakfast, good cologne or forgoing a smoking habit.

e. Learn to follow up. Check back with anyone that turned you down. Your persistance is the key. If your competition is as bad as you think, you will get your chance eventually. Just remember why you are gaining the business; don't become a victim of the same mistakes.

f. Adopt a positive mental attitude. You are not likely to gain and influence people in a negative frame of mind.

CREATE A SALES POLICY MANUAL

Whether you will be your own sales manager or will hire someone, it is important to create a sales policy manual. The manual may include a requirement that you contact at least ten prospects a day. It may also require keeping and updating a prospect file with a strict company policy that all prospect information belongs to the company not the salesperson.

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> Sales policy manual
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> - Frequency of prospect contacts
> - Sales meetings
> - "10-3-1" rule

Another effective tool for a company with any sales force is to have weekly sales meetings. Attendance at such meetings may have to be mandatory.

More than anything, however, it is critical to have an enormous amount of discipline and belief in success when conducting sales as a profession. There is a "10-3-1" rule: This means that every ten telephone calls or cold visits will yield three appointments which will result in one sale. BY calling on more people you will make more appointments. BY making more appointments you will make more sales. Constant and organized prospecting will turn an average salesperson into a top competitor.

THE END

I hope you have learned a few points which will help you and your company to succeed in selling or help you to identify a good salesperson to hire. I will be happy to answer any questions you
may have.