

# The Business Owner®

## Customer Purchase Criteria and Signaling

How do customers decide whether to purchase from you or one of your competitors? From the features and benefits of your offering? If so, then the only thing you must do is offer goods or services that deliver features and benefits that are superior to those offered by your competitors ... right? In other words, the firm that offers the most value wins! We've all heard it - build a better mousetrap and the world will beat a path to your door.

Unfortunately, it is not that simple. Sales and marketing is a complex mixture of art, science, psychology and communication. We begin to understand this when we accept that customers do not have perfect knowledge of the value that they receive, or will receive, from products and services offered to them. Certainly, first time buyers have no experience from which to draw. They must somehow predict such things. And, even customers that regularly purchase and use a certain product or service may not fully and accurately understand the value they receive.

### **Customer Perception is Reality**

Customers live in, and make purchase decisions in, a world of perception and impression. The adage "perception is reality" is true. So it stands to reason, then, that the buyer's perception of a firm and its products can be as important – even more important – than the reality of what is offered. In fact, what you truly offer is meaningless unless the buyer perceives and believes that he or she will enjoy the benefits. Buyers will not pay for value that they do not perceive ... no matter how real it may be!

So, to create a meaningful and effective advertising, marketing and sales strategy, you must play this game. A game of more deeply understanding the valued features and benefits and then expanding the ways in which you convey their existence and value to the prospect. Here are the steps, each of which is then explained in this article:

- Step 1. Identify the decision maker, the decision process and the influencers.
- Step 2. Pinpoint the value that buyers wish to garner from your products or services ("use criteria").
- Step 3. Find out what influences ("signaling criteria") the buyer's perception of your products or services.
- Step 4. Reorganize your marketing, advertising and sales program with the newly gained knowledge.

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**"The buyer's perception of a firm and its products, therefore, can be as important – even more important – than the reality of what is offered."**

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*Continued on page 3*

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# From The Editor

Dear Business Owner:

These are interesting economic times, and this issue of *The Business Owner* offers information to help you navigate.

The Bush Tax cuts, referred to as the "Jobs and Growth Tax Relief Reconciliation Act of 2003", were signed into law in May. They offer significantly heightened opportunity to expense capital purchases in the year of purchase. Higher non-cash expense, such as depreciation, means lower taxes and improved cash flow. And while tax policy should not drive your decision making, it might influence you to consider making necessary capital purchases in 2003 or 2004 ... before some of the provisions expire. After all, this is why the incentives were enacted in the first place – to entice capital spending.

The U.S. dollar is eroding in value against other world currencies. How will this affect your business? Have you heard the talk of deflation? What is deflation, exactly, and what impact could it have on you and your business? Should you be concerned about the mounting losses at some banking institutions? You'll find answers herein.

Your efforts to improve your business will surely pay off handsomely when economic growth returns. And there are signs that the time may be near. The stock market has surged, and advertising commitments for this fall have risen 13% over last year and are 28% higher than 2001. Keep up the good work!



David L. Perkins, Jr.

David L. Perkins, Jr.  
Publisher and Editor

## TABLE OF CONTENTS

1 <b>Customer Purchase Criteria and Signaling</b> Strategy/Profit Maximization	8 <b>Trusts: Revocable, Irrevocable, Living</b> Law
4 <b>Family Business: Preparing the Next Generation</b> Family Business	9 <b>Gitomer: When is the best time to sell more?</b> Sales
5 <b>Signatures and Signature Bars: Get it Right to Avoid Personal Liability</b> Law / Risk Management	10 <b>2003 Tax Act: Benefits for Business Owners</b> Tax
5 <b>Will the Weaker U.S. Dollar Affect My Business?</b> Economics	11 <b>What is Deflation and How Could It Affect My Business?</b> Q & A
6 <b>Owner Actions that Can Result in Personal Liability</b> Risk Management	11 <b>Business Owner's Toolbox</b>
7 <b>Valuation Basics: Return on Investment and Required Rate of Return</b> Business Valuation	12 <b>Four Disciplines of Sustainable Company Growth</b> Book Review/Strategy
8 <b>More Financial Institutions are Struggling. Is Your Money Safe?</b> Risk Management	16 <b>Cautions on Transactions Between You, Your Family and Your Business</b> Risk Management

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Issn. No. 0190-4914. Vol. 27, No. 4. Price \$115 per year.

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## STRATEGY/PROFIT MAXIMIZATION

### Customer Purchase Criteria and Signaling, continued from cover

#### Identifying the Decision Maker, Decision Process, and Influencers

Neither businesses nor households buy products ... individual decision makers do. The decision maker will not necessarily be the person who pays the bill and may be different from the user. At times, there may also be more than one decision maker, such as the husband and wife that make the home purchase decision together; or a purchasing department person and a plant engineer that select equipment. There may be persons that influence the decision maker but don't participate directly in the purchase decision, such as travel agents and tour brokers whom may play a role in the selection of an airline or hotel. There may also be persons with the power to veto but no power to choose.

The identity of the specific person or persons who make the purchase decision will influence, if not determine, which product attributes are most important and desirable. This is because different decision makers will value different things and will look at different "signals" to assess them. A purchasing agent, for example, may not value reliability as highly as a plant manager because the purchasing agent is more detached from the consequences of product failure.

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**“Signaling criteria are simply the things that influence the buyer’s perception of a firm or a product”**

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Success in selling hinges on your ability to identify the real buyer or buyers, understand what product or service attributes are most meaningful to him or her, and identify the signals that he or she looks at to ascertain whether the desired attributes are in your products or in the products offered by your competitors. And, the process of determining the real buyer often suggests new dimensions of performance that are not immediately apparent when we think of the buyer as a firm or household. These new dimensions might include prestige, personal relationships with supplier personnel that are valued in their own right, or the desire to avoid personal risk by choosing a well-known name. The expertise and sources of information available to the real buyer will also shape what signals of value will be convincing. An engineer might use technical publications and advertising in technical journals as signals, while an accounting clerk might be more swayed by polished salespeople and glossy brochures.

#### The Value that Buyers Wish to Garner from Your Products or Services – “Use Criteria”

Customers want products that lower cost, improve performance, or otherwise satisfy their needs and wants. They consider purchase criteria to make their decision. There are two types of purchase criteria: use and signaling. Use criteria stem from the ways in which a product or firm delivers value via lower costs or raised performance. Use criteria might include product quality, product features, delivery time, service and support. As one can see, use criteria can go well beyond characteristics of the physical product. These “indirect” characteristics can be used to differentiate very similar or commodity type products and may be fertile ground for forging differentiation. This is because most firms focus on selling attributes of the physical product, leaving indirect criteria undersold.

*Continued on page 14*

# Family Business: Preparing the Next Generation

One of the greatest concerns in families who own businesses and in families of wealth, is how to assure that their assets will add value to their children's lives, not detract. Too often, we equate giving with gifts, setting things up for our kids, or making opportunities for them. However, these kinds of gifts may deny them opportunity to grow and develop into healthy, fulfilled and motivated adults.

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## The spiritual legacy includes the values that characterize and contribute to the well being of the family and success in the business.

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Sometimes, children of affluent and successful families don't have to work for financial reasons, or worry about finding gainful employment. Without this pressure, children may not fully develop their own competence – a significant source of self-esteem. Instead of growing up with a sense of responsibility for themselves, they grow up with a mindset of entitlement. Aimlessness, disconnectedness and low self-esteem can be the result.

The challenge is to help children develop a personal purpose, a desire to “do something with their lives.” More simply, every child must learn to use and develop his or her own muscles to talk, walk and work. To do something that matters in anything from industry, philanthropy, social service, politics or the arts.

The privilege of wealth should be that the pool of choices a person can make is expanded. So preparing our offspring includes giving them the opportunity to do as much as they can for themselves, with plenty of encouragement and coaching along the way.

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## The asset legacy describes what the family has built.

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For many families, there is a desire to perpetuate a family legacy. Sometimes this includes keeping and growing a business, maintaining a ranch or a farm that ancestors cultivated, or promulgating a philosophy that has defined the family for several generations. So the question arises, “How do we perpetuate our legacy

and our assets in future generations”? In order to perpetuate what the family stands for, the younger generation must be prepared.

The first aspect of developing capable heirs is to offer three areas of learning:

The family's spiritual legacy.

The asset legacy.

The stewardship skills.

The spiritual legacy includes the values that characterize and contribute to the well being of the family and success in the business. This philosophy is often manifested in stories which

family members hear over and over again (the oral history of the family) as they grow up. Often the stories describe how hard work and perseverance, two important and common family values, helped an ancestor overcome odds to lay the foundation for the family business. Faith is another common feature of these stories. Documenting and sharing the family values and history is an important component of the education of the next generation.

As the spiritual history describes how the family has lived, the asset legacy describes what the family has built. This may include the family business or businesses, financial assets outside of a business, real estate holdings, ownership breakdown, etc. As children grow up it is important for them to learn what the family has and responsibility for managing it.

The third aspect of education is stewardship skills or how a person develops the capacity to be a diligent steward of his or her assets so as not to lose them or have them destroy one's life. The topics, which should be addressed here, include asset and financial management, teamwork and leadership skills and self-management.

The education of the next generation starts when the children are very young ... five or six years of age. At that point, children can begin to take in the family stories, which foster an interest and appreciation of family history. Youngsters can also begin to receive an allowance and learn about budgeting and allocating funds for savings, fun and philanthropy.

As a child ages, the content and nature of learning varies but their lessons should teach them about what they have physically and spiritually and what it takes to manage one's life and assets responsibly.

The second aspect of developing capable heirs is to enable them to experience opportunities. This can take many forms. If a family has a business, a young person can work summers or have an internship that enables him or her to experience what the business is really like. This is often the way that young people begin to learn for what the family stands. Family members can be encouraged, through various incentives, to pursue a personal goal and the proper education or preparation for that task. Many families provide for any family member's full education, and at various levels of achievement provide for a benefit like travel, which can add to their wisdom and experience. Often, if a family member wants to work in the family, he or she must obtain professional education and spend time working outside the family business.

Every family must come up with a process of education and a system of incentives to lead a young person to want to do something important. While everyone can't work for the family

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**Stewardship skills allow the child to manage his or her assets so as not to lose them or have them destroy one's life.**

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*continued on page 15*

## ***Signatures and Signature Bars***

### **Get it Right to Avoid Personal Liability**

To avoid being personally liable for contract obligations that are intended to belong to your business, or to the business for which you work, you need to be sure the signature form on any document you sign is correct.

First, the signature block must have the full and correct legal name of the entity that is entering into the contract. Then, underneath the legal entity name is the name and title of the "authorized representative" who is signing the contract on behalf of the entity. If an individual signs his name to a contract, and there is no indication that the individual is signing on behalf of a separate legal entity, the individual could be held personally liable. This happens all too often with smaller companies entering into purchase orders, rental agreements, letter agreements, etc.

Here is an example of a properly styled signature bar where an authorized company representative is signing for his or her corporation:

"Purchaser"

ABC Electronics, Inc., a Colorado corporation

By: \_\_\_\_\_  
John Doe, Vice President

A signature block like the example above will ensure that the creditor, or party who makes a claim under a contract, will only have recourse against the legal entity, and not against the individual who signs on behalf of the legal entity. This discussion only relates to contractual liability. For example, an individual could still be found liable for fraud or misrepresentation even if the signature block uses the above form. □

## **Will the Weaker U.S. Dollar Affect My Business?**

The U.S. dollar has slid in value over the past year compared to other major currencies of the world such as Europe, Japan, Britain and Canada. This means that the exchange rate has declined. For example, on May 19 a U.S. dollar could buy approximately 120 Japanese Yen, whereas a year ago it could have purchased maybe 130 Yen. An eight percent decrease in value! If, for example, a Japanese-made battery cost \$1 in 2002, that same battery might cost about \$1.08 today.

When our dollar declines in relative value, it has lower purchasing power. In other words, we are able to purchase fewer foreign goods as such become more expensive. U.S. goods, however, become cheaper for foreign buyers who hold their domestic currency.

The macroeconomic effect is that US-produced goods and services become more affordable, relative to foreign produced goods and services, for both domestic and foreign buyers. As such, U.S. companies will sell more relative to their foreign competitors.

If you compete with foreign providers, then the weaker dollar should help you as their goods become more expensive. Nevertheless, even if you and your competitors are all domestic and do not purchase from beyond our borders, you will likely benefit from the lower dollar. This is because the weak dollar should be good for the U.S. economy and should raise the performance of many companies that compete internationally.

Note that if you source goods from foreign companies, then your cost of goods may rise, hurting your gross profit margins. And, of

course, when it comes time to spend your profits via international leisure travel or foreign-made goods, they'll be more expensive. □



## **Did You Know ?**

### **Large Corporations Find Ways to Cut Their Tax Bills. You Should Too.**

The Institute on Taxation and Economic Policy examined U.S. profits and federal income taxes of 250 of the nation's largest and most profitable corporations over the 1996-98 period. Although the corporate income tax rate that would apply to almost all of their earnings was 35 percent, the 250 companies in the survey paid only 20.1 percent, on average, in 1998. That was down from 22.9 percent in 1996 and far below the 26.5 percent that a similar group of large companies paid in 1988 – soon after passage of the loophole-closing 1986 Tax Reform Act.

"With significant help from Congress, corporations appear to be finding ways around the tax reforms adopted in 1986," said Robert S. McIntyre, a principal author of both the new study and previous corporate tax studies.

# Owner Actions that Can Result in Personal Liability

One of the reasons you incorporate or form a limited liability company is to protect yourself against personal liability. And, for the most part, such protection is effective. However, there are actions you might take innocently or not so innocently, that could jeopardize your position of safety. At the top of the list is:

- Corporations acting as sole proprietorships or as alter egos of another person or legal entity.
- Preferential treatment of certain creditors, stockholders or insiders.
- Nonpayment of taxes due the IRS and state agencies.
- Improper actions or self-dealing, e.g. personal transactions with the business that antagonize or alienate minority stockholders.

Such actions could let an angry customer or supplier or minority stockholder pierce your corporate veil and sue you personally. There's an additional risk ... if you don't observe the formalities of being a corporation, the IRS can disregard your corporate status and treat the stockholders as individuals for income tax purposes.

## Corporate Actions

In general, shareholders cannot sue management or directors personally for errors that cause corporate injury as long as the errors were made in good faith. If, however, it can be shown that management acted with gross negligence or fraud, the situation changes. Here's a list of actions that could make you personally liable:

- You violate your fiduciary position as an officer of the corporation, a board member, or trustee of your company's retirement plan.
- You use "inside" information to personally profit, to the expense or detriment of the corporation.

- You knowingly distribute misleading or fraudulent financial statements, reports or tax returns.
- Even though you know an action is illegal, you allow it to occur, which causes injury to the company.
- You fail to make sure that the corporation pays payroll taxes due to the IRS or states in which you operate.
- You take some action, or fail to act, in a manner, that constitutes gross negligence (i.e. recklessly or with complete disregard) and the company suffers.
- You don't file required statements or reports, such as state sales reports.

## What to Do

In each of these cases, the precaution is to act responsibly and in good faith. When a transaction is questionable, get your lawyer's opinion before finalizing it. If you must rely on information from another member of management in making a decision or taking an action, take reasonable and basic steps to ensure that the information is accurate and complete. This is particularly important for board members.

## Your Creditors

Once again, the major issue is good faith. If a creditor suspects some sort of chicanery in an effort to avoid paying corporate debt, the courts may allow the creditor to reach into management's personal pockets. Here are some actions that are almost certain to attract attention or raise suspicions:

- In anticipation of bankruptcy, you divert corporate funds to avoid paying creditors, or you unjustly pay certain creditors ahead of others (referred to as preferential treatment).
- The company compensates its officers and/or directors so excessively that corporate assets are depleted, thus cheating creditors of what they are owed.

- Shareholders receive dividends while the company is in serious financial trouble, thus harming the creditors.
- Employees are left with wages owed to them after you dissolve the business.
- You fail to properly fund the pension/retirement plan.

## Six Ways to Protect Yourself

1. Perform the required corporate formalities such as shareholder and directors meetings, vote on items that require voting, keep corporate books and minutes, etc.
2. Before entering into an agreement which could materially affect the business, do your homework ... and leave evidence that you did so. Prepare and retain reports and memoranda which support your decision to enter into the transaction. A simple example would be the preparation of cash flow projections to support a term loan.
3. When you have to sign a contract, sign it as an officer of the company – not as an individual. (See accompanying article titled "Corporate Signatures and Signature Bars.") Make sure the word "Inc.," "Corporation," "Ltd." or "LLC," for example, appears after the name of the company.
4. If your business is controlled by you or your family, try to have at least one outside or independent board member.
5. If you are a board member, keep current on corporate affairs. Read the minutes of the board meetings and ask questions about actions you don't understand. If you can't attend the meetings regularly, resign rather than run the risk of personal liability.
6. Before affecting any business transactions with yourself or your family members, see the cautions in the accompanying article "Cautions on Transactions Between You, Your Family

*continued on page 10*

# Valuation Basics: Return on Investment and Required Rate of Return

Return on Investment (ROI) is generally referred to as the cash or profit gained from equity dollars invested. It is also referred to as Return on Equity (ROE). The return can be expressed as a dollar amount, or converted to a percentage by dividing the return by the equity deployed. Typically, returns are calculated on an annual basis and referred to as *annual rate of return*.

$$\frac{\text{Dollars Received}}{\text{Dollars Originally Invested}} = \text{Rate of Return}$$

Return can also be calculated on total capitalization (debt and equity). Such a return would be calculated as follows:

$$\frac{\text{Dollars Received}}{(\text{Equity Capital} + \text{Debt Capital Invested})} = \text{Return on Total Capitalization}$$

Example: If \$50 were received in year one as a return on \$200 invested, the rate of return would be 25 percent, calculated as  $50/200 = .25$  or 25 percent

These returns can be calculated after the fact, as above, or the formula can be used to calculate the amount that can be invested and still yield a required rate of return. For example, if a given investment is expected to earn \$50 and the required rate of return is 25 percent, then the amount that can be invested is \$200. Using basic algebra to rearrange our original formula to calculate rate of return, we obtain the following formula to calculate investment amount that will yield the desired rate of return given the expected amount of income:

$$\frac{\text{Dollars Received}}{\text{Required Rate of Return}} = \text{Dollars Originally Invested}$$

$$\$50 / .25 = \$200$$

## Required Rate of Return

When considering the discount rate or required return on investment, it is helpful to study the historic returns of various investments. The accompanying table lists the average annual total returns earned on a variety of investments between 1926 and 2000. Each of the investments in the list is publicly traded as it is only public

investments on which this information is available. If we consider the character of the investments listed and the returns of each, we can make some general conclusions as the required rates of return on investments that are not listed below, such as private (non-public) investments.

Each investment listed in the table at left was publicly traded, thus marketable. The lowest rate of return was U.S. Treasury bills at 3.9 percent annually and the highest was Micro-Cap stock at 18.4 percent annually. Similarly, by nature, the investment with the lowest amount of risk was the U.S. Treasury bill, and the investment with the highest amount of risk was the Micro-Cap stocks. Although not shown here, this was determined by using the standard deviation of the returns. If we try to relate the returns on this table to small, privately held businesses, we can assume the required returns for such would be higher than the riskiest investment in the table— Micro-Cap stocks. The primary reasons are as follows:

1. The average private company will be less marketable than the average publicly traded Micro-Cap size company, therefore involve more risk.
2. The average private company will be smaller than the average publicly traded Micro-Cap size company, and have poorer access to equity and debt capital, involving higher cost and risk.

Remember that the required rate of return on an investment reflects the degree of risk of the investment. Risk is the degree of uncertainty that a given investment will actually yield the returns (income) that are

anticipated. As risk rises, so must the rate of return to compensate the investor for the risk he or she bears. □

	<b>Average Annual Returns<sup>3</sup></b>
Inflation	3.2% <sup>1</sup>
U.S. Treasury Bills (30 days)	3.9% <sup>1</sup>
U.S. Treasury Bonds (5 years)	5.5% <sup>1</sup>
U.S. Treasury Bonds (20 years)	5.7% <sup>1</sup>
L.T. Corporate Bonds (20 years)	6.0% <sup>1</sup>
Large Cap. Stocks	13.0% <sup>1</sup>
Micro-Cap. Stocks	18.4% <sup>2</sup>

<sup>1</sup> Source: SBBI Valuation Edition 2001 Yearbook. Returns are the average annual total (income and capital appreciation) arithmetic mean for 1926 to 2000 in the United States.  
<sup>2</sup> Micro-Cap Stocks is defined as the portfolio of stocks comprised of the 9th and 10th deciles of the New York Stock Exchange. According to the Center for Research in Security Prices, University of Chicago, the average capitalization of micro cap companies from 1926 to 2000 was \$68 million.  
<sup>3</sup> Returns are return to total capitalization (debt and equity).

**“Gratitude can transform common days into thanksgivings, turn routine jobs into joy, and change ordinary opportunities into blessings.”**

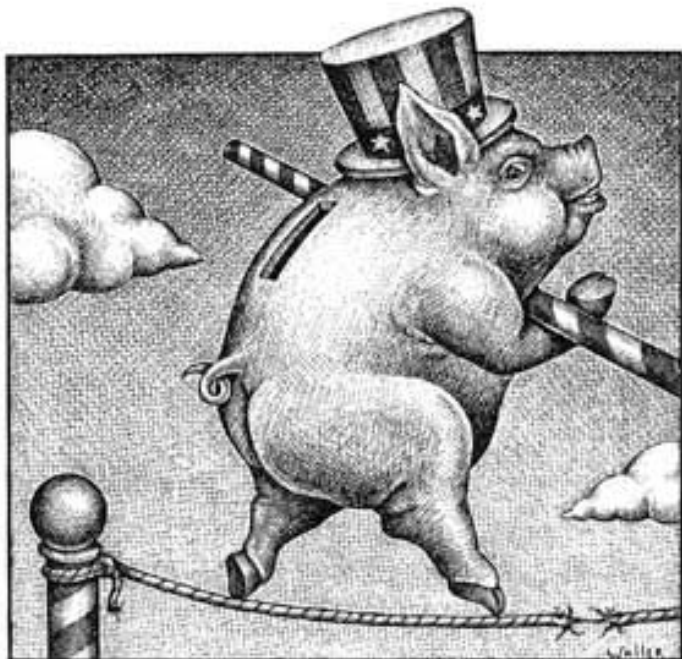
*William Arthur Ward*

## More Financial Institutions are Struggling. Is Your Money Safe?

If your money is deposited (savings account, checking account or certificate of deposit) at a bank, credit union or saving and loan, it is almost certainly guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. To determine whether yours is covered, go to [www.fdic.gov](http://www.fdic.gov) and click on "bank data" to look up your financial institution.

You can take comfort in that, according to the FDIC, not one depositor has lost a cent of insured funds since the start of the FDIC insurance program on January 1, 1934. Take caution, though, if you have more than \$100,000 at a single institution. Break the total into separately styled accounts such as individual, joint, IRA and trust. Utilize more than one institution if necessary.

Note as well that many depository institutions today also sell securities, mutual funds and annuities. These funds are not guaranteed by the FDIC against loss. Although no organization insures investments from a decline in market value, monies may be protected by the Securities Investor Protection Corporation (SIPC) in the event of loss due to fraud or failure of a broker-dealer. The SIPC guarantees brokerage accounts with cash up to \$100,000 and securities up to \$500,000. To find out if your investments are insured, look up your institution at [www.sipc.gov](http://www.sipc.gov) and click on "members." □



## Trusts

### Revocable Irrevocable Living

A trust arises when legal title to property is held by one or more persons while its use, enjoyment and benefit belong to another. A trust may be created by agreement of the parties, by grant in a will, or by a court decree. However created, the relationship is known as a trust. The party creating the trust is the creator or settlor, the party holding the legal title to the property is the trustee, and the person who receives the benefit of the trust is the beneficiary.

Every trust has a creator or settlor, trust property, a trustee and a beneficiary. Any person legally capable of entering into an agreement or contract may create a trust. Any type of property that currently exists and is owned by the trust creator may be contributed to a trust. Anyone legally capable of holding title to and dealing with property may be a trustee.

The trustee has three primary duties: 1) to carry out the purpose of the trust, 2) to act with prudence and care in administering the trust, and 3) to exercise a high degree of loyalty to the beneficiary. No special skills are required of a trustee under ordinary circumstances. There are very few restrictions on who can be the beneficiary. For example, a pet can be named as beneficiary.

The most common types of trusts are express trusts. An express trust is created by voluntary action via written document or, under some conditions, an oral statement. Trusts are all irrevocable unless the power of revocation is specifically reserved by the creator/settlor. Trusts are usually created for a defined span of time. Death of the creator, trustee or beneficiary does not result in termination of the trust unless such is part of the terms established at origination.

Living trusts are simply trusts designated to hold assets during an individual's lifetime. They are most often used to avoid the public nature and expense of estate administration following death. Revocable trusts are more appropriate for this use than irrevocable trusts. In contrast, irrevocable trusts are often created by wealthy individuals that want their assets to be used for the benefit of a person who may need assistance in the management or administration of the assets.

Trusts can be expensive to administer and can cause major problems for those who enter into them without competent legal and financial advice from an experienced estate planning attorney or financial planner. □

# When is the best time to sell more?

Picture this. You made the sale. Everyone is happy. The customer is ready to sign the document because he loves you, loves the product, loves the company, and can't wait to take ownership. His wallet is open. There is plenty of extra money. Nevertheless, you in your anxiousness or nervousness to "make the sale," leave all the extra money on the table.

Up-selling or add-on selling is the single biggest lost opportunity in amateur salesmanship.

Up-selling can be defined in one word: *Ask*. Want another word? *Question*. Want another one? *Suggest*. Another? *Recommend*. All of these words make up the core of the up-sell process. And, up-sell is the sister of referral – both are sales after-the-sale. Both are in addition to what you already have sold. The big difference is that up-sells are NOW and referrals are later. Both require asking or further engaging – but the referral can also be earned (no ask).

Both referral and up-selling are sciences that must be mastered to maximize time utilization and profit.

What could you up-sell? What can you add to an order? What else can you ask for when a customer places an order? How much more could you earn by doing that? The answer is lots.

Every business has up-sell options. Upgrade to a better and higher profit model. Sell a car and up-sell prepaid repairs and a warranty. Sell a suit and up-sell a shirt and tie. Cell phones need covers, batteries and chargers. Appliances have warranties. Restaurants have drinks, appetizers and desserts. UPS and FedEx up-sell insurance.

What's in it for you? What could you, or better stated, what SHOULD you be adding to your orders? Do you have a list? Do you have a GREAT way to add them?

The up-sell sales theory is ... once the wallet is open, empty it. The customer is in a buying mood. He has already made up his mind and is open to any suggestion that will help him. It all rests on your ability to engage combined with how much trust you have built.

Think about how you buy. As soon as you make up your mind to buy that pair of shoes or sweater, you're looking around for "what else." Or, if the clerk makes a suggestion, you're all ears (i.e. all wallet).

Wanna make more "up-sales?" Or better stated, not making enough of them? A simple way to start is by asking "what else," and then don't open your mouth until the customer responds. Even better, ask, "Do you want fries with that?" Billions of dollars in revenue have been generated from that single question. It's possibly the greatest up-sell question ever

invented. A very specific request to which many are likely to just say "OK" without even giving it a second thought. This question has been upgraded to "supersize" and other mutations. However, the classic example will reign supreme. Everyone reading this (maybe everyone in America) has heard that question and has responded in the affirmative. That's powerful. And, it's money in the bank.

If the convenience store employee would say, "Most people forget cigarettes, a bag of chips and something to drink. What have you forgotten?" The additional cash results would be staggering.

There are two options in up-sell. You can ask or you can tell. Asking is more genteel, but telling has more power (if you are confident you are helping, not just piling-on). Up-selling, or should I say, the lost science of up-selling, is broken down into forms or elements. Here are a few to contemplate:

**Recommend.** I think you should also get ...

**Suggest.** You might also want to add ...

**Consult.** My experience has taught me that ...

**Question.** Have you thought about ... ?

**Power Phrases.** The best value is ...

**Make it a deal.** If you buy another, I will discount ...

**Comfort them.** Most people take ... Everyone else uses ...

**Ask.** Do you want ... ? Would you like ... ?

This seems so simple. So, why doesn't everyone do it? The reason is that up-selling is not top of mind awareness. And, sales people are busy thinking about the next thing. Oftentimes, in retail, catalog or inside sales, the other phone is ringing, or a customer is waiting and you have no time to add profit or more profit to the sale. Big mistake. ☐

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**Jeffrey  
Gitomer**

**"Failures, repeated failures, are finger posts on the road to achievement. One fails forward toward success."**

*Charles F. Kettering  
1876-1958, American Engineer, Inventor*

## 2003 Tax Act: Benefits for Business Owners

The Bush tax cuts, titled "Jobs and Growth Tax Relief Reconciliation Act of 2003", were signed into law in May of this year. A sizeable cross section of U.S. taxpayers will see tax relief. For business owners in particular, three provisions merit attention and consideration.

First, section 179 deduction limits have been raised from \$25,000 to \$100,000. This means that as much as \$100,000 of depreciable property, such as machinery or equipment, can be expensed in the year purchased. Personal vehicles used for business that exceed 6,000 lbs, such as the Ford Expedition and Chevy Suburban, may qualify. The heightened incentive expires after 2005, however, and there are conditions, limits and some qualifications ... so consult your tax advisor.

Second, the first year "bonus" write-off for capital expenditures, originally written into law in 2002, was increased from 30 percent to 50 percent for the tax years 2003 and 2004. This allows a full 50 percent of the depreciable amount of purchased property to be written off in year one. The depreciable balance is calculated after any section 179 deduction, and the bonus is allowable for regular and alternative minimum tax (AMT) purposes.

For example, if you purchase \$200,000 of qualifying five-year depreciable property in 2003 and are allowed the full \$100,000 section 179 deduction, the total of your year one expense and depreciation deduction might be \$160,000! First, you take your \$100,000 179 deduction off the top and are left with a depreciable basis of \$100,000. Then take the new 50 percent bonus off your depreciable basis for another \$50,000 of year-one depreciation, leaving just \$50,000 to depreciate over five years (\$10,000 per year). As such, in the first year you have written off \$160,000 of your \$200,000 asset purchase!

Third, long term federal capital gains tax rates have been

decreased from 20 percent to 15 percent for most income levels. This could further reduce the tax burden to business sellers, whether the sale is affected via assets or stock. A year ago this rate was 28 percent, meaning a \$1 million capital gain would trigger \$280,000 in federal taxes. Today, the same seller could put another \$130,000 in his or her pocket.

The 2003 tax law changes are significant and could alter the tax, investment and retirement planning strategies that are most appropriate for you. Talk to your financial advisor. For a detailed explanation of the new tax laws view, for free, the publication titled "CCH Tax Briefing" at [www.CCH.com](http://www.CCH.com). □

**Law:** Business Capital Expensing (Sec. 179)

**What:** Increases year 1 maximum to \$100,000 from \$25,000.

**Effective Period:** 2003, 2004, 2005

**Law:** Business Depreciation "Bonus"

**What:** Increases amount that can be depreciated in first year of purchase to 50 percent from 30 percent.

**Effective Period:** May 6, 2003 and 2004

**Law:** Capital Gains

**What:** Long-term rates reduced to 15 percent from 20 percent and to 10 from 5 percent for lower income earners.

**Effective Period:** May 6, 2003 through Dec. 31, 2008

**Law:** Dividends

**What:** Top rate falls to 15 percent from 38.6 percent.

**Effective Period:** Jan. 1, 2003 through Dec. 31, 2008

**Law:** Income Tax Rates

**What:** Accelerates already scheduled cuts. Rates drop from 27%, 30%, 35% and 38.6% to 25%, 28%, 33% and 35%.

**Effective Period:** Jan. 1, 2003 through 2003 Dec. 31, 2010

**Law:** Child Credit

**What:** Child tax credit increases to \$1,000 from \$600.

**Effective Period:** 2003 and 2004

**Law:** Marriage tax break

**What:** Raises credit to \$1,000 from \$600.

**Effective Period:** 2003 and 2004

**Law:** Alternative Minimum Tax

**What:** Raises exemption to \$58,000 for married couples and \$42,250 for unmarried taxpayers

**Effective Period:** 2003 and 2004

**Owner Actions that Can Result in Personal Liability, continued from page 6**

and *Your Business*" in this issue of *TBO*.

Lastly, owners should keep their personal affairs separate from corporate affairs. This sounds obvious, but strong-willed business owners often present the image of themselves that says, in effect, "I am the corporation." If that's the image you want to convey, then be prepared to assume the risk. □

**"As we advance in life it becomes more and more difficult, but in fighting the difficulties the inmost strength of the heart is developed."**

Vincent van Gogh  
1853-1890, Dutch Painter

## Are You a Winner?

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## What is Deflation and How Could It Affect My Business?

**Q:** There is suddenly a lot of talk about risk of deflation. Can you explain what it is and how it might affect me as the owner of a private business?

**A:** Let's first review inflation, which is the general rise (over time) in the price or cost of goods and services. As prices rise, the purchasing power of dollars erodes. Asset values – such as investments in real estate, collectables and precious metals – generally increase. Importantly, and fortunately for debtors, liabilities held by businesses and individuals tend to become less costly as incomes rise and the amount owned does not. In addition, investors that hold appreciating assets purchased with debt enjoy rising asset values as the real cost of their debt falls. This occurred for many real estate investors during the periods of high inflation in the late 70's and early 80's.

Deflation is the opposite of inflation. Deflation is a period of general decline in the prices of goods and services. The general purchasing power of dollars held by investors and consumers rises and the values of tangible assets such as real estate, collectables and precious metals fall.

Deflationary periods occur when demand is very low and businesses operate well below capacity. This is because businesses compete harder for fewer orders, resulting in price cutting and lower profit and profit margins. Layoffs and higher unemployment is characteristic, which can cause additional weakness in demand through lower consumer spending. As the healthier businesses experience lower profits, the marginal businesses suffer losses. Personal and business bankruptcies increase and bad debt expenses climb ... all of which further weakens demand and increases pricing pressure.

If a person were able to anticipate oncoming deflation, he or she might sell investments which are likely to fall in value such as equities, real estate, precious metals and collectables; and allocate the proceeds to pay off debt or buy assets that are protected against value declines ... such as corporate or government bonds. Investing in the debt of corporations, however, should be done with care to watch that the business that must repay the bonds does not slide into financial difficulty due to the poor economic environment.

Later in the deflationary cycle, an investor might re-allocate resources into assets that can be bought at depressed prices but are likely to rise as the economy recovers and inflation returns. □

## Business Owner's Toolbox

### Low-Cost 800-Number; Voicemail via Email

[www.UReach.com](http://www.UReach.com)

For \$6.99 a month, get your own 1-800 number. Have the number ring through to your main telephone number or into your UReach voice mailbox, which is customized with your personal greeting. If your voice mailbox answers, you can have the message immediately emailed to you as an audio file. Another handy offering of UReach is what they call "shared rooms." You can paste documents into a "room" on the UReach website. Allow anyone to access it via their web browser and the password you provide. Great for allowing quick access to documents that are too large to email or are being screened-out by anti-virus software.

### Federal Deposit Insurance Corporation

[www.fdic.gov](http://www.fdic.gov)

Check out the details on insured deposits and whether your financial institution is FDIC insured. To determine whether your institution is covered, go to [www.fdic.gov](http://www.fdic.gov) and click on "bank data" to look up your financial institution. Searchable databases allow users to find institutions and their branches in order to determine their status as insured depository institutions, their financial condition and their condition relative to other institutions. The databases also contain other information about individual financial institutions as well as aggregate financial statistics for comparative use.

### Securities Investor Protection Corporation

[www.sipc.gov](http://www.sipc.gov)

SIPC insures investor funds that are lost due to the bankruptcy or insolvency of securities brokerage firms. SIPC only protects investors whose accounts are with SIPC member firms. SIPC only insures firms that are registered with the U.S. Securities and Exchange Commission. To find out if your investments are insured, look up your institution at [www.spic.gov](http://www.spic.gov) and click on "members."

### Cost Effective, High Performance Small Aircraft with Parachute!

[www.CirrusDesign.com](http://www.CirrusDesign.com)

Cirrus Aircraft, a private company founded in 1984 in Duluth, Minnesota, offers the only general aviation aircraft in the world with an airframe parachute system. Current versions began selling in 1999 and 800 are in operation today. A \$200,000 version flies 160 knots and has an 831-mile range. A \$290,000 version flies 180 knots with a 1,000-mile range. Both are single engine with four seats. Winner of the Plane & Pilot 2003 Reader's Choice Award. The parachute system saved pilot and plane last year in Dallas.

# Four Disciplines of Sustainable Company Growth

In the April 2002 edition of the *Journal of Applied Psychology*, The Gallup Organization published research that proved unequivocally that a more engaged employee is more productive, profitable, customer focused, safer and less likely to jump ship. Gallup found that 70 percent of U.S. employees are not engaged at work, as measured by what they referred as the Q12 items ... twelve questions, the answers to which reveal whether or not an employee is engaged and to what degree. These questions were printed in the Jan/Feb 2003 issue of *The Business Owner*.

The data begs the question, however, of what can be done to build a working environment that nurtures and creates more engaged employees. Gallup offers the following four disciplines.

## **Discipline 1: Hold All Employees Accountable for Their Performance**

The first discipline is to ensure that each employee understands how his or her performance will be measured. Each employee should be able to look at his or her performance dashboard and identify each dial, understand why each dial is important, and know how and how often each dial will be measured.

The perfect dashboard is one that includes only three dials. One dial should measure the person's business performance. For example, a sales role would normally include such metrics as gross margin and revenue growth. An operations role would include measures of quality such as errors per million. An information technology role would include measures of efficiency such as new program cycle time.

The second dial should measure how engaged the employees are in his or her workgroup. Although short-term results can sometimes be achieved by bullying tactics, sustainable superior results are impossible without high levels of employee engagement. And, since every single employee either adds or subtracts from his team's level of engagement, every single employee should be held accountable for it.

The third dial should measure customer engagement. As with the employee engagement metric, your customer metric should be short and simple. It should be derived from asking actual customers to rate their own feelings and/or behaviors. If an employee only interfaces with vendors or others within his or her own company, query these people as if they were customers.

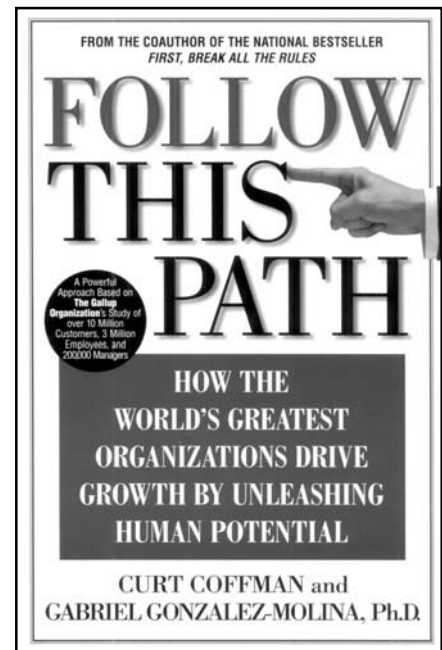
## **Discipline 2: Teach All Employees to Identify, Develop and Deploy Their Strengths**

Most people are not fluent in the language of strengths. Ask them to describe their strengths and, with few exceptions, they will quickly lapse into the language of cliché. "I am good with people, I am a self-starter, I am a perfectionist," and so on. Furthermore, ask them which they think will help them improve the most ... building on their strengths or improving their weaknesses. Most of them will come down on the side of weaknesses.

To build a fully engaged organization, you will need to teach your employees a new perspective and a new language. First, teach them the difference between talents, skills and knowledge. Teach them that each person possesses unique talents, and that these talents and recurring patterns of thought, feeling or behavior, endure throughout adulthood. Teach them that the way to excel is to identify their natural talents, and then seek out skills and knowledge that strengthen these talents.

Second, teach them a way to identify their strongest and weakest talents. Teach them to look for the clues to talent, clues such as yearnings, areas of rapid learning, satisfactions and spontaneous reactions.

Third, teach them a language for describing each person's talents. This language must be precise. It should be able to describe the subtle variations of how one person differs from another. It must be positive. It should help explain a person's strength not frailty. In addition, it must be common. It must be a language



in which every employee is fluent, so that no matter where he or she is in the organization, if someone says Mary has "command" or Brian has "achievement" everyone knows exactly what is meant.

Finally, teach them to spend at least 80 percent of their time thinking about how to build their talents into bona fide strengths by acquiring relevant skills, knowledge and experience. Teach them that only 20 percent of their time should be spent managing around their weaknesses. Teach them how to use this time wisely by finding a partner, developing a system for support, or by using their strengths to make their weakness irrelevant. If the weakness stems from a lack of skills or knowledge, teach the employee to take responsibility for seeking out the skills or knowledge needed.

## **Discipline Three: Align All Your Performance Appraisal and Review Systems Around Identifying, Deploying and Developing Employee Strengths**

Design an effective performance appraisal process. Obviously, your process will need

**Sustainable Company Growth Through Effective Employee Performance Management, continued from previous page**

to be tailored to the unique requirements of each role, but to guide your redesign we suggest following this simple sequence.

At the beginning of each year, the manager and the employee should have a one-hour conversation. During this conversation they will discuss three areas: a) what are this employee's strengths? Specifically, what are his or her talents and relevant skills and knowledge? b) What is expected of the employee? Specifically, what are the dials on his performance dashboard, what level is the employee expected to reach this year on each dial and what at-risk compensation will he or she receive for reaching these levels? And, c) How can the employee use his unique strengths to drive each of the dials? Specifically, what strength-based strategies or tactics can he employ to reach the levels expected of him? This last area is where all the creative work of great coaching needs to occur.

During the course of the year, the manager and the employee will meet at least four more times for a minimum of thirty minutes each time. In these meetings, the employee will answer three simple questions: a) What is my main focus going to be for the next three months? b) Are there any new strategies or tactics I need to employ or should I stick to the ones we agreed on at the beginning to the year. And, c) What two things can you, my manager, do to help me? These brief but focused conversations keep every employee focused on the short-term future and thus are the mechanism that allows an organization to respond in real time to dynamic market conditions and shifting priorities. They are the organization's best antidotes to change.

At the end of the year, the manager and the employee meet for a final time to review last year's performance. In this meeting, the manager plugs in the employee's objectively measured scores for each of the dials. No complex negotiation is needed to arrive at the overall rating because there is no overall rating. There is only the score. Objective, dispassionate, incontrovertible numbers. They are what they are. The employee receives the at-

risk pay agreed upon at the beginning of the year ... and then the process begins again for another year.

**Discipline Four: Design and Build each Role to Create World-Class Performers in the Role**

One simple way to assess how well you are managing your human capital is to ask your employees this question: At work do you have an opportunity to do what you do best everyday? Gallup research reveals that, on average, only 20 percent of employees can answer "strongly agree." Why is this figure so low? Why do so many employees feel miscast?

One of the main reasons is that many employees have been deliberately promoted out of the roles where they can really use their strengths. To create an organization of world-class performers in every role, undertake the following initiatives:

**Define graded levels of achievement for every key role.** Specify at least three rungs of a career ladder that leads from good to great to world class. These rungs should be based on reaching certain levels of measurable performance, rather than just tenure, so be sure to use each role's outcome metrics when defining the rungs. Your system should allow every employee in every role to answer these three questions:

- A. Who is the very best, the Tiger Woods, of my role?
- B. Does this person receive prestige and respect in the form of pay, title or recognition within my organization?
- C. What are the performance levels I will have to reach in order to become the next Tiger Woods?

**Build an instrument to select employees who possess the same level of talent intensity as your best performers in the role.** Your selection system should be built around a study of your best performers in the role, or around those who, in your considered opinion, will be the best performers given the way your business is developing. It should have at its core a

selection instrument that is built around sound psychometric principles. This instrument should be scored, but it should yield only a total measure of talent intensity, not a score for each specific talent. This measure of talent intensity will provide your managers with an objective and reliable answer to the question: "Does this candidate possess an overall level of talent intensity similar to that of our best?"

Your selection system should have a second component, which is a set of open-ended questions that the manager can use to listen for clues to the person's talents during the interview process. These twin selection tools should be then be used as a general guide to aid in the selection process. □

*This article was written from information published by The Gallup Organization. Learn more by reading their books, attending the Gallup University courses, or contact Gallup at 800-288-8592 for consulting. Purchase Discover Your Strengths and receive an identification number to take Gallup's online 'Strength Finder' test. See [www.Gallup.com](http://www.Gallup.com).*

**“You can achieve anything you want in life if you have the courage to dream it, the intelligence to make a realistic plan, and the will to see that plan through to the end.”**

*Sidney A. Friedman  
American Entrepreneur*

**Customer Purchase Criteria and Signaling, continued from page 3**

Use criteria can also include intangibles such as style, prestige, perceived status and brand image. This is particularly true for consumer products. For example, the social context in which cigars are often consumed gives rise to the importance of image. Many cigar buyers want to be seen consuming or serving high

**“What you truly offer is meaningless unless the buyer perceives and believes that he or she will enjoy the benefits.”**

quality cigars. Similarly, having the prestigious type of corporate jet may be as important as the speed or cost effectiveness.

Use criteria are the basis of all attempts to differentiate, add value and communicate value. To accurately identify use criteria, consider the following:

- Internal (within your organization) knowledge or experience of the buyer's wants and needs.
- Interviews with the buyer.
- Assessment of the buyer's value chain (to be discussed in the next issue of *The Business Owner*) and of all existing and potential linkages between your firm and the buyer's value chains.
- Assess and rank use criteria in order of greatest impact on customer cost and performance.

### **Identifying “Signaling” Criteria – Things that Influence Buyer Perception**

Signaling criteria are simply the things that influence the buyer's perception of a firm or a product's ability to add value in the areas that are most meaningful to the buyer (i.e. use criteria). They are the things that a buyer looks at to help him or her predict what benefits will be enjoyed by owning a product and buying a service. For example, if on-time delivery is an important use criteria to a buyer, he or she might look to past experience with on-time performance, reports regarding on-time performance, and customer testimonials regarding the same. Other common signaling criteria include:

- Reputation or image.
- Advertising.
- Weight or outward appearance of the product.
- Packaging and labels.
- Appearance and size of facilities.
- Time in business.
- Installed base.
- Customer list.
- Market share.
- Price (where price connotes quality).
- Parent company identity (size, financial stability, etc.).
- Visibility to top management of the buying firm.

Signaling criteria may help a firm be considered and/or may

play a role in the buyer's final purchase decision. Signaling criteria may be quite subtle, such as the appearance of a contracting firm's trucks, or the appearance of the auto repair shop's facilities, both of which signal quality of workmanship and honesty. Activities a firm performs, such as involvement with a trade organization, cleanliness or visibly “taking great care,” can also be signaling criteria.

Signaling criteria are most important when buyers have a difficult time measuring a firm's performance; when the product or service is purchased infrequently; or when the product is produced to buyer specifications. In professional services, such as consulting or engineering, signaling criteria are extremely important.

Begin identifying signaling criteria by taking each use criteria and writing down the possible signals of each. Then study the process the buyer uses to form judgments about a product or firm's potential ability to meet use criteria. What information sources does he or she consult, such as accountants, bankers, channel representatives, industry trade groups, journals or technicians? What types of testing or inspection procedures are carried out?

### **Reorganize Your Marketing, Advertising and Sales Program**

When you have identified the buyer, the features and benefits that are important to him or her (use criteria), and the signals that influence his or her decision, you have one more task before you design your marketing program — an objective assessment of your offerings and those of your competitors. What use criteria are you in the best position to satisfy?

What use criteria are your competitors best positioned to satisfy? Finally, which customers, customer groups or buyer types are you most readily positioned to satisfy to a degree unmatched by your competitors?

Once these questions have been answered, you are ready to select the use criteria to emphasize and on which to establish your sources of differentiation. You want to excel at use criteria that are: most valued by your target customers, will be hard for your competitors to match, and which you can signal in cost effective and hard to imitate ways. Build your advertising, marketing and sales program around these and you will become different — the only way to battle competitive pricing and earn higher profits and market share. You will be ready to compete more intelligently and win more business.

**“Success in selling hinges on your ability to identify the real buyer or buyers, understand what product or service attributes are most meaningful to him or her, and identify the signals that he or she looks at to ascertain whether the desired attributes are in your products.”**

*continued on next page*

*Customer Purchase Criteria and Signaling, continued from previous page*

**“Buyers will not pay for value that they do not perceive ... no matter how real it may be!”**

*This article is the fifth in a series on the state-of-the-art in competitive theory. The basis of this article, and the series, is the work by Michael E. Porter as described in his books, Competitive Strategy and Competitive Advantage.*

- Part 1: *Introduction to Competitive Strategy and Competitive (2002 Nov/Dec issue)*
- Part 2: *Industry Structure and The Five Competitive Forces that Influence Industry Profitability (2003 Jan/Feb issue)*
- Part 3: *How to Pursue a Differentiation as a Path for Superior Profits Advantage (2003 Mar/Apr Issue)*
- Part 4: *Cost Drivers and Where to Look to Lower Cost (2003 May/June issue)*
- > Part 5: *Customer Perception and Signaling (This issue of The Business Owner)*
- Part 6: *Buyer Value and The Value Chain (2003 Sep/Oct issue)*
- Part 7: *Switching Costs and Substitution (2003 Nov/Dec issue)*

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*Preparing the Next Generation, continued from page 4*

business, the family can instill a sense of mission and purpose in every family member. A desire to make meaningful use of their lives and to live and express the important family values. □

*This article was provided by the Aspen Family Business Group (AFBG), a periodic contributor to The Business Owner. For information on their consulting, educational services and publications, see [www.AspenFamilyBusiness.com](http://www.AspenFamilyBusiness.com).*

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“Never, ever, think outside the box.”

## Coming Up in *The Business Owner*

**The Power Of Time and Compounding of Investment Returns**

■  
**Disability Insurance**

■  
**Writing a Business Plan In One Hour/Refining It With 20 Minutes a Week**

**Switching Costs and Substitution**

■  
**Small Disadvantaged Business Status, Explained**

■  
**What To Look For In a Business Appraiser**

**Small Business Health Plans**

■  
**Employee Stock Option Plans (ESOPs) - An Overview**

■  
***The Business Owner's Big Three***

**Corporate Books and Records – What To Do**

■  
**Responsibilities Of Company Board Members**

■  
**Company Officers and Non-Officer Employees**

If you need to renew, or have any comments or questions, just call us at (800) 634-0605 or email [info@TheBusinessOwner.com](mailto:info@TheBusinessOwner.com).

# Cautions on Transactions Between You, Your Family and Your Business

As the owner of a private business, you may at any time be held accountable for your actions. Accountable to stockholders, creditors or the IRS. One way to get into trouble is by not maintaining “arms length” in transaction between you, your family and your business. Arms length means that you should not get any better terms than an outsider would, and that you are not using your position for personal gain other than as a shareholder of your business. Use the following checklist to keep out of trouble.

- A. Each transaction between your company (or you) and a related party must be fair and at arm’s length. That is, you must deal with the individual or entity as if he or she was an unrelated outsider.
- B. On any money transactions (i.e. salary, loans, interest, rental payments, etc.), document the amounts and terms. For example, if you or your children are buying a building that will be leased to your business, get an independent appraisal of the property to support the price paid and the annual rental rate charged to the business.
- C. Do not rely on oral approvals from other stockholders as support for the IRS. Prepare written memoranda, have them sign it, and attach any supporting documents.



D. Have your board approve the transaction and record both the details and the approval in the corporate minutes. Always abstain from personally voting on the transaction.

E. On family transactions, use a different lawyer. Don’t have your company lawyer represent both sides.

F. Try to use standard forms and agreements. For example, don’t make a lease agreement between a related party and your company too different from a lease your company would negotiate with an independent lessor.

G. If there are minority stockholders, they may question any transaction. So, obtain their written approval in advance.

H. Have your advisers review IRS Code Section 267. It further explains related parties. In addition to family members, related parties can include:

- a. Stockholders, partners, an estate, custodial accounts, trusts, and ...
- b. Other individuals or entities directly or indirectly involved in the ownership of the business or an affiliate of the business.

There is, of course, minimum percentage ownership tests that determine when another owner is considered related. Normally, the IRS may not be interested in a one percent stockholder unless that owner is related to other persons or entities that own larger positions. □

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